MANITOBA BUDGET HIGHLIGHTS 1988

August 8, 1988

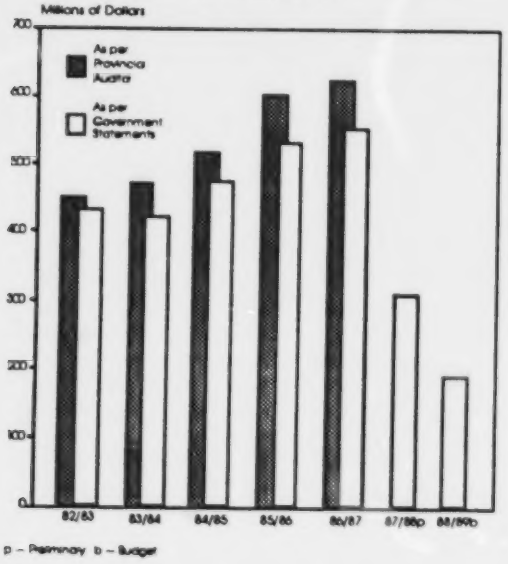
Hon. Clayton Manness
Minister of Finance
Province of Manitoba

FINANCIAL POSITION

The Province's deficit is the difference between what the Government spends and what it receives in taxes and other revenues. An independent review of government accounts confirms what the Provincial Auditor has been saying for some time - that the real amount of the deficit has been understated in the past.

Manitoba's Deficit

Summary, 1982/83 to 1988/89



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1988/89 BUDGET

Millions of Dollars

Expenditure	$ 4,561
Revenue	4,365
Deficit	$ 196

REVENUE HIGHLIGHTS

- There will be no increase in personal income taxes during the term of this government.
- All the benefits of federal tax reform will be passed on to taxpayers. As a result Manitobans will save $52 million in provincial taxes this year.
- Next year, the payroll tax exemption will be tripled from $100,000 to $300,000. Half the employers now paying the tax will be exempt. Many others will pay at a reduced rate.
- A New Small Business Tax Reduction plan which will exempt new small businesses from paying corporate tax in their first year of operation. During the four subsequent years they will pay tax at reduced rates.

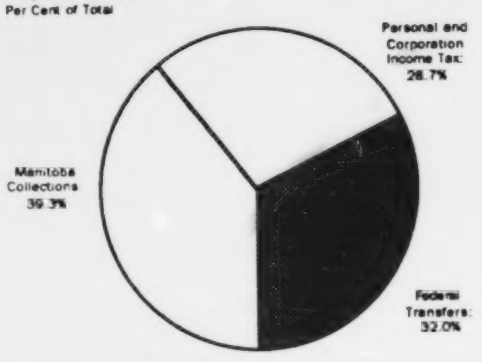
Limited tax increases include:

- The mining tax has been raised from 18% to 20%.

Provincial Revenue, 1988/89

Major Sources

Per Cent of Total



- The tobacco tax will increase by 0.9¢ per cigarette, effective September 12.
- The surcharge on leaded gasoline will increase 0.9¢ per litre, effective September 1.
- The aviation fuel tax rate will increase by 1.0¢ per litre, effective September 1.

THE DEBT DILEMMA

In March 1982 our general purpose debt was $1.4 billion; in March 1988 it stood at $5.3 billion. The total of all the debt accumulated in the first 112 years of our province was tripled between 1982 and 1988.

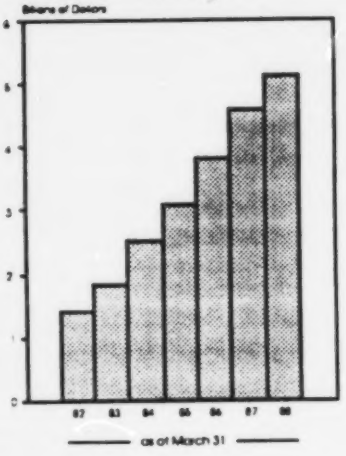
The cost of servicing this debt has also increased rapidly.

In 1982 interest costs were $114 million; in 1988 they are $545 million a year.

These interest payments take money that could otherwise be used for providing services to Manitobans. As interest costs rise, more money must be borrowed and taxes increased. In order to preserve services and to restore a competitive tax structure, the government must control the increase in debt and debt costs. This can only be done by better management and by careful control of spending.

The Progressive Conservative government of Manitoba has pledged to do this.

Taxpayer-funded Debt



WHERE WE STAND

This is a critical period in the economic and financial history of Manitoba.

In recent years, our economic performance has relied on unsustainable increases in government spending. Manitobans are now paying the price. Yearly deficits have pushed the provincial debt to a level unparallelled in history.

An independent review has shown the true scale of the problem. Adjustments have had to be made to the province's books, resulting in more than a billion dollars being added to the total recorded debt carried by taxpayers.

To pay for this debt, taxes have also been pushed to record highs.These taxes have discouraged investment in this province and slowed the creation of new jobs.

The danger of the situation is clear. As more money is spent on paying interest, less is available for providing services vital to Manitobans....services such as good health care, good education and good roads.

Our government has begun the task of putting Manitoba back on a solid footing. The challenge is to restore the province's financial and economic health. These highlights of the 1988 Manitoba Budget outline the steps our government is taking to meet the challenge.

Clayton Manness
Minister of Finance

PROGRAM HIGHLIGHTS

HEALTH

- $1.5 billion to provide quality health care to Manitobans. Up 9% from last year.

EDUCATION

- $792 million for Manitoba's schools, colleges and universities.
- an extra $3.3 million for independent schools, bringing average per-pupil grants up to 40% of those received by public schools.

COMMUNITY SERVICES

- $195 million for vital social services such as child protection and women's shelters.
- $124 million for Child and Family Services.
- $36 million for child care to increase the number of day-care spaces and broaden the range of options available to parents.

AGRICULTURE

- An increase of over 50%, bringing spending to $115 million.
- $18.3 million (including $4.5 million in federal funds) for drought assistance.
- $12 million for the Education Tax Reduction Program for Farmers designed to reduce school taxes on farmland by 25%.

HIGHWAYS

- $95 million to be spent improving the province's highway and road system.
- work will be accelerated on widening Highway 75 between Winnipeg and the U.S. border to four lanes.

NEW INITIATIVES

STRENGTHENING THE ECONOMY AND JOB CREATION

- Encourage new investment and job creation by eliminating the payroll tax for half of taxable employers.
- Exempt the trucking industry from the payroll tax on out-of-province operations.
- A New Small Business Tax Reduction plan will assist the formation of new small businesses by giving them a tax holiday.
- A 10% increase in funding for economic and resource development programs.

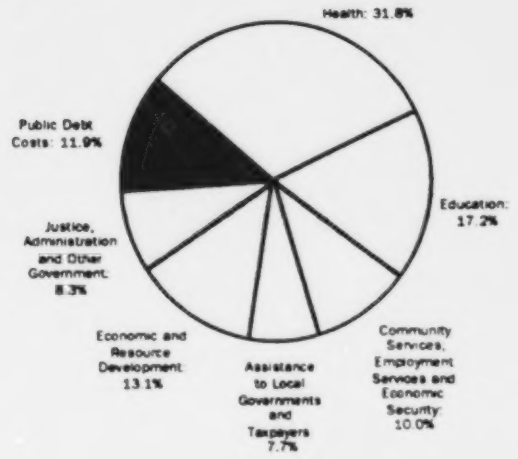
SOCIAL NEEDS

- Development of a health-care action plan for the next decade by a Health Advisory Network which will conduct public consultations.
- Creation of a Seniors Directorate to address the concerns of the elderly in Manitoba.
- Development of an Urban Native Strategy to assist the transition of native people who have chosen to move to the city.
- Establishment of a Task Force on Literacy to help Manitobans lacking essential reading skills.

CROWN CORPORATION ACCOUNTABILITY

- All major Crown corporations will be required to publish quarterly statements.
- Unnecessary Crown corporations will be wound down or transferred to the private sector.

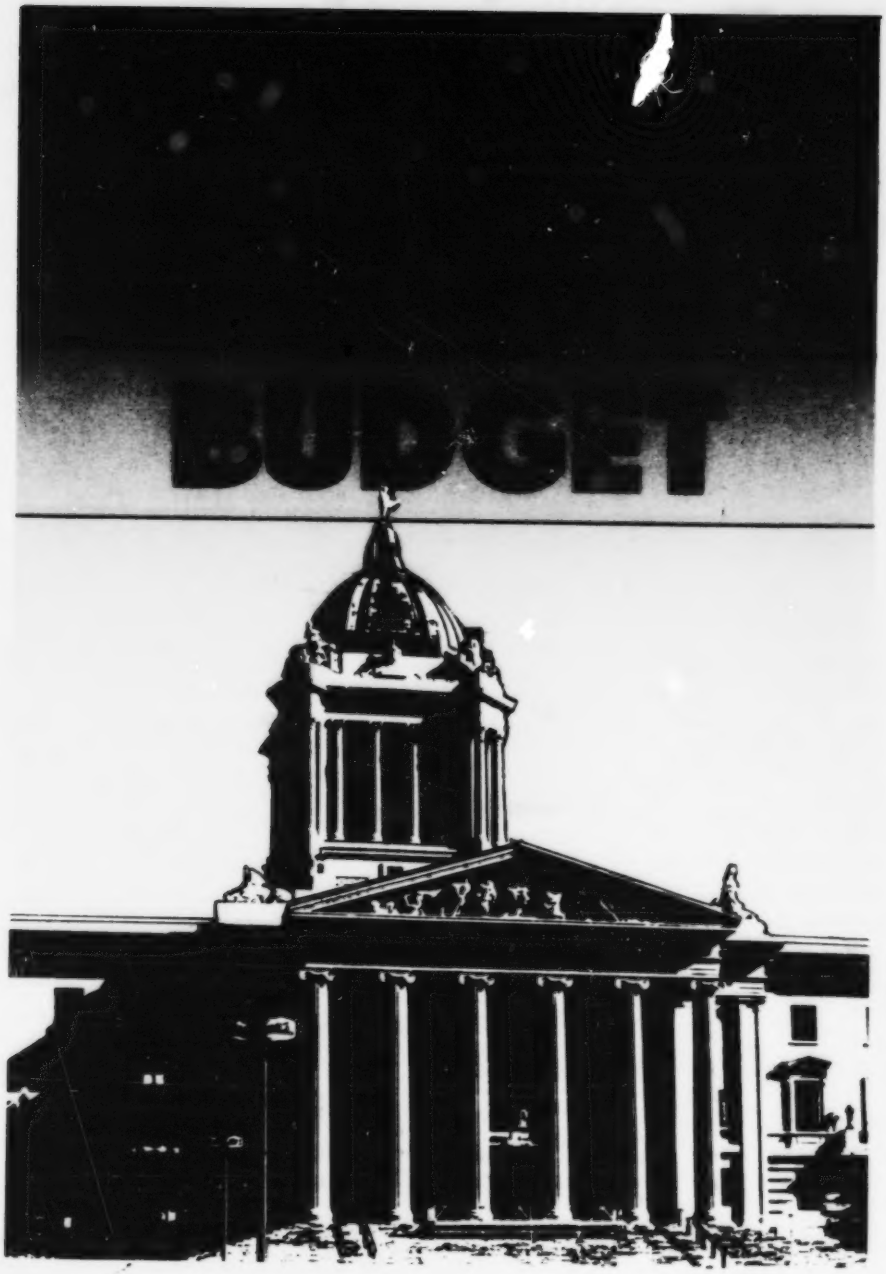
Provincial Spending, 1988/89
Per Cent of Total Budget
Major Categories


Health: 31.8%
Public Debt Costs: 11.9%
Education: 17.2%
Justice, Administration and Other Government: 8.3%
Economic and Resource Development: 13.1%
Assistance to Local Governments and Taxpayers: 7.7%
Community Services, Employment Services and Economic Security: 10.0%

PROGRAM SPENDING

Millions of Dollars

Health	$1,458
Education	792
Community Services, Employment Services and Economic Security	461
Assistance to Local Governments and Taxpayers	354
Economic and Resource Development	600
Justice, Administration and Other	381
Total	**$4,046**



The Honourable Clayton Manness
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THE 1988 MANITOBA BUDGET ADDRESS

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THE 1988 MANITOBA BUDGET
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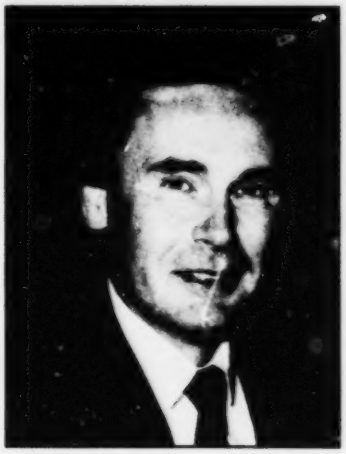
INTRODUCTION:

Mr. Speaker:



As I rise to present the first Budget of our Government, it is clear that Manitoba is at a crossroads...a turning point in our history. We are facing decisions that seriously affect our future prosperity and quality of life.

Manitoba is a province rich in opportunity. Our natural resources are the envy of the world...productive farmland, vast tracts of forest, abundant mineral reserves, and mighty rivers.

We have hydro — a blessing as we approach the twenty-first century. Managed well, it will drive our economy, creating permanent jobs and investment.

We have attractive opportunities for long-term development. I see the day when our Province will again be a leader in developing technology in areas as diverse as agriculture, health, and aerospace.

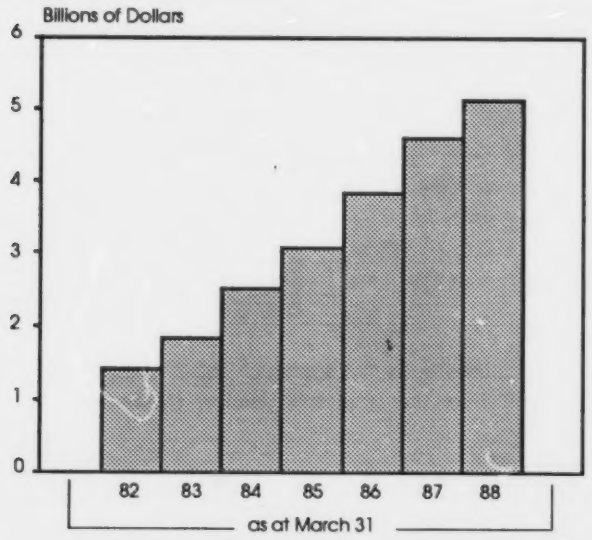
As has been stated many times, we have enormous human resource potential...talented and energetic people who are eager to meet the challenges of the future. It becomes our obligation as Government to create the environment where these talents can prosper, where individuals can fulfil their dreams and provide for their own requirements.

However, for all its opportunities, Manitoba still has needs which must be met and problems which must be solved.

Our people are becoming increasingly aware that economic growth in recent years has relied upon an unsustainable level of public sector spending which has left a legacy of high debt, high taxes and a growing burden of debt service costs. This legacy threatens the public programs Manitobans want and Manitobans deserve. It also threatens the investment and job creation potential of our economy, which is essential to our continued prosperity.

The fiscal excesses of the past constrain efforts to stimulate growth and provide services. Scarce tax dollars used to pay interest on the Province's debt to international lenders, are not available to pay for health, education and other services in Manitoba.

General Purpose Debt



On April 26th, Manitobans voted for sound management to meet these challenges, and to take full advantage of our province's potential.

Our goal is a competitive and diversified economy which will provide increased investment and job opportunities for our citizens, and pay for quality health, education and social programs.

Today's Budget outlines this Government's plans:

- to meet the challenges facing us in health care, education and other social services;
- to encourage job creation and capital investment, and to speed the recovery of agriculture;
- to regain control of spiralling debt and interest costs;
- to improve management and accountability of Government departments, Crown corporations and agencies; and
- to make Manitoba's taxes competitive with other jurisdictions.

In short, this Budget helps Manitoba regain the eminence in Canada it once enjoyed.

We are now at a crossroads. Ahead lie new opportunities for all Manitobans. This Budget outlines the first steps that we propose on our journey together into the future.

Manitobans can take heart from this Budget. As promised during the election, there will be no increase in personal income taxes. There will be no increase in corporate taxation. A 6.7% increase in spending is proposed to maintain and expand important services, and meet the r.al needs of Manitobans. Assistance is provided to help farmers cope with the drought. The first step is taken toward the elimination of provincial school taxes on farmland.

Fully two-thirds of program spending is allocated directly to priority health care, education, social assistance and community protection. More money will be invested in our essential highway system — the lifeline of rural Manitoba and our prime trading link to neighbouring provinces and states.

Limited tax increases are proposed on tobacco, on leaded gas and on mining profits.

Action is taken to deal with the punitive tax load facing business and industry. The payroll tax is eliminated for half the taxable employers in the province. An income tax holiday for new small business will encourage the formation and growth of new Manitoba enterprises.

For individuals, the full benefits of National Tax Reform — $91 million in federal tax reductions, and $52 million in Manitoba income tax reductions — will be passed on to Manitobans. And, the previously planned 25% increase in motor vehicle registration fees will be rescinded.

The Province's annual deficit has been reduced by more than one-third, to $196 million. A significant start has been made on the critical task of managing the affairs of Government effectively and responsibly.

But, much remains to be done. An Independent Review of the Province's books has recommended changes to the Province's accounting policies in keeping with generally accepted public sector accounting principles. As a result, the recorded liabilities facing Manitoba taxpayers are adjusted to include an additional $709 million, and the recorded financial assets are reduced by $368 million...over a billion dollars in total.

Deficits, regardless of their size, continue to add to the debt facing taxpayers. We must strive to meet the demands for programs and services, and pay the costs of past borrowing from current revenue. We must build for the future rather than borrow from it.

Before going into the details of the Government's plans, I would like to discuss the economic context within which we must make our policy and management decisions.

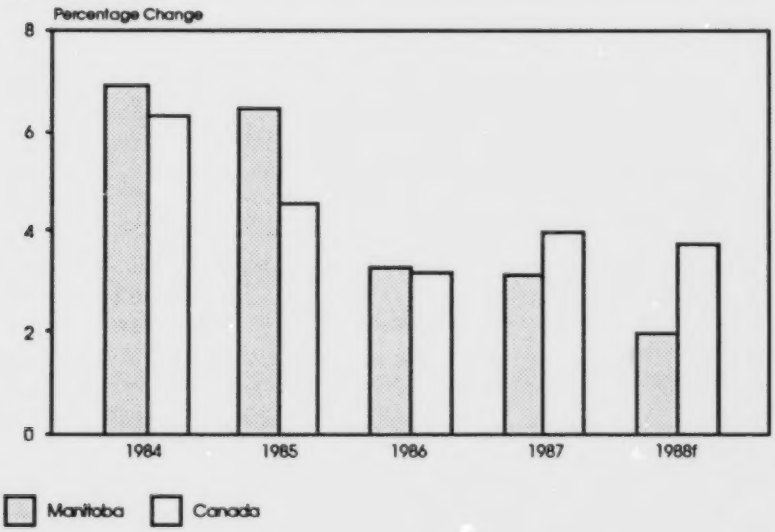
THE ECONOMIC CONTEXT

The international economic expansion in the 1980s has been the longest in post-war history. Many observers expect more moderate economic growth in the years ahead.

Manitoba shared in the economic prosperity of the mid-1980s. However, Gross Domestic Product and investment per capita remain well below national and western Canadian levels.

The gap widened last year as the province recorded virtually no growth in total capital investment, a slight downturn in private investment, and employment growth of less than 1%. Overall growth in real Gross Domestic Product totalled 3.1%, compared with 4.0% in Canada.

Real Gross Domestic Product, Manitoba and Canada, 1984 to 1988



f — Forecast

Source: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Department of Finance

Earlier this year, forecasters predicted an increase in real GDP in Manitoba of 2.5% to 3.0% in 1988. However, as the impacts of the drought begin to be assessed, it appears that growth may be considerably lower, and possibly below 2%. This one factor points out the dominant position agriculture continues to hold in the Manitoba economy. Employment growth of under 1% appears probable. The unemployment rate is likely to be close to 7.5%.

Prospects for 1989 are encouraging, assuming the national expansion remains on track, and the return of more normal conditions in agriculture.

Capital investment growth is resuming this year with a 10.6% increase in the total, and a 16% increase in the non-residential component. Hydro-electric development is a major source of strength. There is renewed growth in manufacturing investment, and a strong increase in transportation. Private, non-residential investment is projected to increase 9.4%.

Mining and manufacturing are currently among the growth leaders in the Manitoba economy.

The value of Manitoba's mineral production increased by one-third, to a record $1 billion last year. With continuing strong demand, further gains are assured for 1988.

In manufacturing, employment gains of 10%, and an 8% increase in the value of shipments have been recorded so far this year. Modernization and expansion to take advantage of export opportunities are contributing to a 16% projected increase in manufacturing investment in 1988.

Access to export markets is important to the continued growth and development of the Manitoba economy. In 1987, our international exports totalled $2.6 billion. One in seven Manitoba jobs is dependent on international trade. Manitoba is a trading province and our business sector must have access to markets to expand and to create jobs. Given fair opportunity, Manitobans have the talent and the entrepreneurial ability to compete successfully throughout North America and, indeed, globally.

Studies of the impact of the Canada-U.S. Free Trade Agreement indicate cumulative positive effects amounting to 2% to 3% of Canadian GDP in the first five years. Manitoba's central location in the North American trading area means our businesses are well situated to take advantage of the new opportunities under the Free Trade Agreement. And that, in turn, means more investment and jobs for Manitobans.

The multilateral trade negotiations, which are now gathering momentum, will be of major importance to Manitoba in improving international market access for agricultural products in particular. Canada's alliance with the U.S. through the Free Trade Agreement will place us in a better position to influence positively the resolution of international trade issues impacting on Manitoba.

Manitoba's long-term prospects are bright. We have the resources, the industries and the people to build a stronger, more dynamic economy which will meet the competition and profit from the challenges of the 1990s. There are opportunities in energy-intensive industries and advanced-technology production which will revitalize our manufacturing sector. A reduction in world grain stocks is setting the stage for longer-term recovery and growth in agriculture and related industries. New mineral production is coming on stream.

Our Government is working with the federal government to develop joint initiatives and new agreements to strengthen and diversify Manitoba's economy. Better management of provincial affairs and sound fiscal planning will contribute to growth, development and wealth creation.

REPORT ON THE PROVINCE'S FINANCES

Sound fiscal planning must be based on an accurate accounting of the financial obligations facing Government. Manitobans have a right to receive a true and complete accounting of the fiscal circumstances facing the Province, including an accurate valuation of debt ultimately carried by the taxpayer, and losses incurred in Crown corporations and agencies.

For that reason, during the election, a full-scale Independent Review of the financial position of the Province, including foreign borrowing, was promised.

To fulfil that commitment, we have initiated a special three-phase project to improve financial reporting and accountability.

Phase one, undertaken by Stevenson Kellogg Ernst and Whinney, has now been completed.

The Review recommended accounting policy changes and related adjustments: to recognize losses when they occur; to record foreign currency gains and losses in the Province's financial position on a more current basis; and to consolidate accounts related to general government operations.

The Review identified specific adjustments to the Financial Statements of the Province required to implement these recommendations. The recommended adjustments have been made and are reflected in the updated financial position of the Government.

- Recognition of the Province's total liabilities, including foreign exchange losses, and recognition that some financial assets are not recoverable at the value carried on the books, mean that the excess of liabilities over financial assets at March 31, 1988 was more than $1 billion higher than under the former accounting system.
- The Province's deficit for 1987/88 stands at $311 million.
- The General Purpose Debt — financed by taxpayers — outstanding at March 31, 1988 is increased $1.3 billion to reflect:
  - the consolidation of debt issued for general purposes, including debt through Manitoba Properties Inc.;
  - the inclusion of unrecoverable debt of, and advances to, Crown corporations and agencies; and
  - the valuation of debt issued in foreign currencies at the exchange rates in effect on March 31, 1988.

With these adjustments, General Purpose Debt totalled $5.3 billion on March 31, 1988.

The recommendations in the Independent Review for a more complete and straightforward disclosure of government spending and net liabilities are reflected in the Preliminary Year-End Financial Statement for 1987/88, which I am tabling today, and in the Province's spending plans for 1988/89. Year-over-year comparisons cited in this Budget are based on the Preliminary Actual results for 1987/88.

Last year, the Province's spending totalled $4.349 billion, $161 million, or 3.8%, above the amount budgeted. The spending total includes $75 million in extraordinary expenditure related to the Manitoba Public Insurance Corporation and Workers' Compensation Board.

Revenue totalled $4.038 billion — up $265 million from the amount budgeted. Equalization receipts $151 million above the Budget estimate, and personal income tax revenue $107 million over Budget, accounted for most of the increase.

We believe responsible planning of the Province's budgetary affairs must take the total financial situation into account.

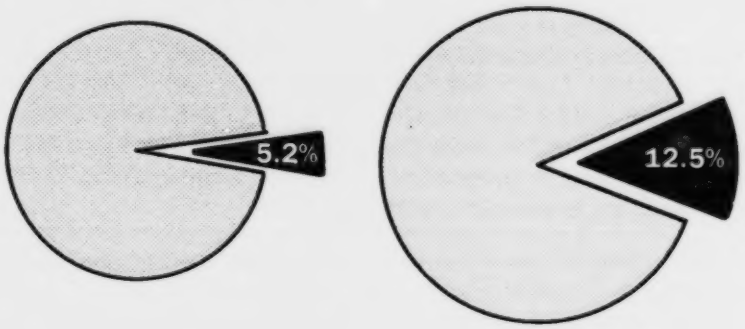
Manitoba's spiralling debt poses a direct threat to our social and economic progress. It must be brought under control in order to maintain quality social services and to build a better Manitoba.

In March 1982, our General Purpose Debt was $1.4 billion. At the end of the last fiscal year, it stood at $5.3 billion. In a period of six years under the previous administration, the General Purpose Debt, which had accumulated over the first 112 years of our Province's history, more than tripled. And, this escalation occurred in large part, during a period of economic growth and expansion.

The inevitable result of increasing debt is, of course, escalating interest payments. In 1981/82, the net costs of servicing General Purpose Debt amounted to $114 million, or 5.2%, of total revenue. Today, those costs are $545 million, including debt costs paid through Manitoba Properties Inc. This represents 12.5% of revenue. As I indicated earlier, interest paid in the money markets of the world is not available to provide good education, good health care and good roads in Manitoba.

During the past six years, General Purpose Debt tripled. Interest costs quadrupled. Increasing shares of the tax dollar were needed to pay for borrowing. Less was available for programs Manitobans needed. Borrowing increased again and, inevitably, tax burdens escalated to among the highest levels in Canada for middle- and upper-income earners.

Public Debt Costs as Proportion of Total Revenue, 1981/82 and 1988/89



1981/82		1988/89
	($ millions)	
2,181	Revenue	4,365
114	Public Debt Cost	545

We are committed to regaining control of the debt and thereby the growth in interest costs. We are determined to reduce and eventually eliminate the Province's annual deficit.

We believe this can be accomplished through better management, while protecting programs essential to meet the real needs of Manitobans.

The second and third phases of the Independent Review will help us move further toward that goal. Phase Two includes an overview examination of management practices and program effectiveness in selected departments, Crown corporations and agencies.

The third phase of the project involves changes in policies and procedures to strengthen government financial control and management, and place government operations on a sound basis for the future delivery of programs and services to Manitobans.

EXPENDITURE MANAGEMENT

When we assumed office on May 9th, the fiscal year had already started. We carefully reviewed the spending plans then in place, and made some important changes.

We are determined to strengthen our economy, and to take action to meet the special needs of rural Manitobans beset with drought, and to protect our forests ravaged by fires.

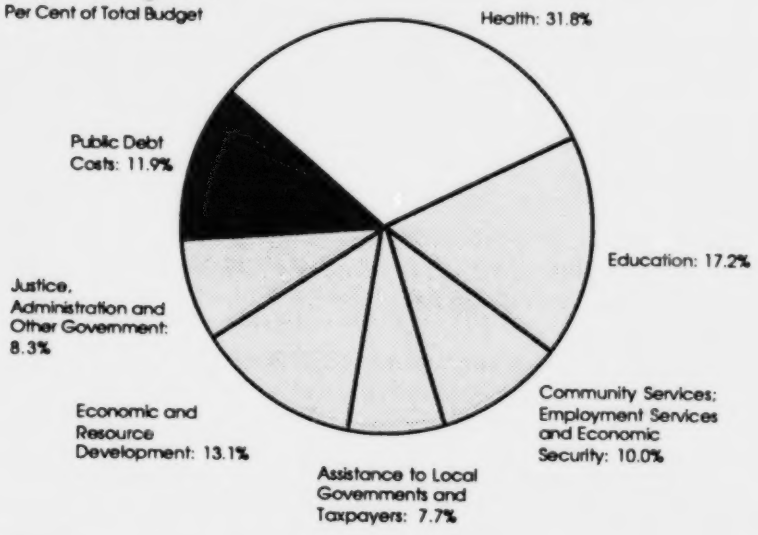
We have ensured that there will be sufficient resources to provide high-quality health care, education and other social programs.

We have put in place new initiatives which begin to fulfil our election commitments. Among the most important of these is our effort to bring better management to government by reducing waste and duplication and streamlining government operations.

Provincial Expenditure, 1988/89

Major Categories

Per Cent of Total Budget


Health: 31.8%
Public Debt Costs: 11.9%
Education: 17.2%
Justice, Administration and Other Government: 8.3%
Community Services; Employment Services and Economic Security: 10.0%
Economic and Resource Development: 13.1%
Assistance to Local Governments and Taxpayers: 7.7%

STRENGTHENING OUR ECONOMY

Manitobans recognize the contribution that positive and supportive government can make to improving our economy, to enhancing investment opportunities and to creating more jobs.

Agriculture

The most serious economic challenge now facing Manitoba and Canada is the worst drought in half a century. Governments can and must respond with help for our farmers.

This Budget proposes $115 million for programs delivered by the Department of Agriculture, including $11 million for Doubtful Accounts of the Manitoba Agricultural Credit Corporation. Reflecting the serious situation facing our farmers, the Agriculture Budget is up more than 50% from last year.

Some $18.3 million, including $4.5 million in federal funds, are earmarked for emergency drought assistance. A further $700,000 is included for drought proofing. These measures offer needed immediate assistance and begin work on longer-term measures to protect farmers from the effects of subsequent droughts.

We are also moving to fulfil our promise to work toward the elimination of provincial school taxes on farmland, with a commitment of $12 million for the Education Tax Reduction Program for Farmers. The new Program provides a 25% across-the-board reduction in the school taxes assessed on farmland in the province. The provincial benefit will be paid at the time of property tax payment. Those who have already paid their property taxes will receive rebates from their municipalities. Land owned by financial institutions will not be eligible for benefits.

Transportation

Transportation is key to economic activity in our province. Without a high-quality road network, Manitoba businesses face insurmountable obstacles in reaching new markets and serving existing markets.

We have, therefore, added $7 million in new money for highway construction, to the amount proposed in the defeated Budget. Planned activities this year include:

- twinning of the Trans-Canada Highway through the Grand Valley west of Brandon; and
- survey and design work leading to an earlier completion of four lanes on Highway 75 from Winnipeg to the American Border.

We are determined to stop the deterioration of our roads and highways and work toward needed improvement.

Industry Trade and Tourism

Services and initiatives supporting business development and tourism are also being integrated and streamlined under the new Department of Industry, Trade and Tourism. The new Department will eliminate the confusion and duplication which previously existed between the Departments of Industry, Trade and Technology, and Business Development and Tourism, and the Jobs Fund.

The mandate of the new Department will recognize the need for balanced economic growth throughout the province. To implement this mandate, a new Rural Economic Development Committee of Cabinet will be struck, supported by a departmental unit dedicated to this initiative.

As a major priority, the new Department will undertake a wide-ranging review of options to improve access to investment capital for businesses in Manitoba. The review will include a thorough appraisal of alternatives, including a Manitoba Stock Savings Plan. It will also consider options to provide a more competitive environment for manufacturing in Manitoba. The initiatives we bring forward in 1989 will respond to the needs of Manitoba businesses, especially small- and intermediate-sized enterprises that form the backbone of the economy.

Tourism is also a major focus for the new Department. Increased emphasis will be placed on tourism promotion, and enhanced development of Manitoba attractions. To allow Manitoba tourism to begin to compete on an equal footing for its share in national and international markets, I am pleased to announce an immediate increase of $1.0 million for a major new initiative in tourism marketing this year. As a further measure of assistance to the tourism and hospitality sector, liquor markups have not been and will not be applied to supplier-cost increases this year. As well, we are fulfilling our commitment to maximize use of the Canada-Manitoba Tourism Agreement with an allocation of $1.4 million.

SOCIAL AND COMMUNITY PROGRAMS

Manitobans value their social and community programs and want to know that these services will be secure, not just in the short term but also for future generations. A healthy economy provides the best guarantee for the future provision of health, education and social programs. Our economic initiatives, including tax changes I will announce shortly, will strengthen our economy.

This Budget allocates $2.7 billion, up 7.0% to priority health, education and social services this year. We will maintain these programs for Manitobans.

Health

In Health, $1.5 billion is committed to maintain vital services, up 9.1% from last year. This total includes:

- $760 million for hospitals and community health centres;
- $263 million for medical services;
- $181 million for personal care homes;
- $45 million for home care;
- $42 million for mental health services; and
- $40 million for Pharmacare.

This Budget provides $11.4 million more for medical services, and $10.4 million more for hospitals — in large part, to pay the costs of contract settlements with doctors and nurses — which were not sufficiently provided for by the former government.

The Health Budget also includes three important initiatives promised during the election:

- $500,000 for the creation of a Health Advisory Network comprising representatives from Government, health-care professionals, administrators, unions and the public, with a mandate to hold public consultations and recommend a health-care action plan for the 1990s which incorporates new and innovative approaches.
- $100,000 for a badly needed new Youth Drug Abuse Program; and
- $150,000 for Industrial Health Promotion.

Additional resources have also been provided to expand women's services at River House. This additional funding will ensure the continuation of this important residential facility for women seeking treatment.

Education

This Budget includes important commitments to improve the range and quality of educational opportunities. The Education Budget, at $792 million, is up 3.3% over last year. School divisions will also benefit from the accelerated remittance of school taxes. The Budget includes:

- $686 million for primary and secondary education, $473 million from general revenue and the balance from the Education Support Levy;
- $184 million for universities; and
- $78 million for other post-secondary, adult and continuing education programs.

The Education Budget includes funding for important initiatives promised during the election:

- $11.1 million for independent schools — an increase of $3.3 million, bringing support to 40% of the average per pupil grant received by public schools. This is a first step toward our commitment to provide funding of 50% of the public school per pupil grant.
- $300,000 for a Task Force on Literacy. We are determined to take action to help those who cannot read or write, and to upgrade the skills of those who left school before Grade Nine.
- $4.9 million, including $636,000 in new funding for the Distance Education Branch, to improve the delivery of courses for Manitobans in rural and remote areas.

Community Services

The Budget for Community Services is up 9.0%, to $195 million. Included are:

- $65 million for social services; and
- $124 million for child and family services.

Nearly $36 million is budgeted for day-care programs, a 23% increase. This funding will enable Manitoba to take advantage of federal funding and to meet our commitments to increase the number of day-care spaces and the range of options for parents seeking quality child care.

The Budget also includes increased funding to support the Child Protection Centre at the Health Sciences Centre in providing reliable clinical services and training related to the growing number of child abuse cases.

Employment Services and Economic Security

The Budget for Employment Services and Economic Security is up 5.6%, to $267 million, including $205 million for social allowance programs. This Budget provides $2 million more for cost-sharing municipal assistance than the defeated Budget.

An additional $1 million will be dedicated to a new pilot project to provide more skills and training to enhance social assistance recipients' employability. A further $400,000 will be added to the Single Parent Job Access Program to help single parents on social assistance.

Seniors' Directorate

To keep our promise to Manitoba's seniors, a Seniors' Directorate will be established to give added focus and co-ordination to Government programs responding to senior citizens. The Directorate will report directly to the Minister Responsible for Seniors.

Attorney General

The Budget for the Department of the Attorney General, including Corrections, is up 4.2%, to $132 million. Resources are provided to fulfil a number of election commitments, including reconstituting an independent Law Reform Commission; reinstating RCMP services in rural areas; and stopping the planned amalgamation of the Law Enforcement Review Agency with the Manitoba Police Commission. In addition, resources are being provided to finance the Inquiry into Native Justice and to support Community Crime Prevention.

Municipal Governments

Our relations with municipal governments will be based on recognition and understanding of the important contribution they make to the quality of life throughout the province. We are determined to deal more openly with Manitoba's municipalities. We will consult before making major decisions and we will listen. In this spirit, I am pleased that a new schedule of school tax remittances is now being implemented. That schedule results from an intensive round of consultations.

Municipal governments provide important services in a more effective manner than can be achieved through a centralized bureaucracy. Municipalities will, therefore, retain responsibility for administering short-term welfare. Uniform regulations will be developed to ensure all Manitobans requiring this assistance are treated equitably.

Our Budget measures reflect our commitment to municipal governments and the communities they serve. Support provided through the Departments of Municipal and Urban Affairs has been increased $9 million, helping to provide services to local residents with less reliance upon property taxes. A new Urban Native Adjustment Strategy will be developed. Again, we plan to consult with native organizations as well as local government bodies and the federal government.

Most importantly, for municipalities, this Budget rescinds the arbitrary cap placed on Provincial-Municipal Tax Sharing payments by the former government. The commitment to tax sharing in the legislation will be honoured. This means that local governments will receive $47.1 million in tax sharing payments this year, a $7.1 million or 17.8% increase, and a share of growth in income tax revenues in years to come.

We promised to maintain and protect important services, both today and in the future. This Budget delivers the needed resources to accomplish that today, and begins to take action to secure the fiscal and economic base of the province, and our ability to pay for these programs in the future.

IMPROVING EFFICIENCY AND ACCOUNTABILITY

Work has begun on streamlining government operations, eliminating duplication and reducing overhead costs. This work will secure valuable savings this year, and larger savings in the future.

As a first step, we reduced the size of Cabinet. This decision points the way toward logical consolidations of departmental operations to secure additional savings. The central Planning and Priorities Committee bureaucracy has been abolished.

The Jobs Fund Programs have been transferred to the departments responsible for program delivery, thereby ending unnecessary duplication.

The Manitoba Energy Authority, formerly financed by non-budgetary borrowing, will be included in the Budget for the Department of Energy and Mines. In this manner, spending by the Authority will be given the same careful scrutiny in the Legislature as that accorded other programs.

Departmental reorganization and consolidation will provide services more efficiently and effectively. In addition to the new amalgamated Industry, Trade and Tourism Department, Co-operative Development has been merged with Consumer and Corporate Affairs, and responsibility for Corrections has been transferred to the Attorney General.

Together, these measures represent a significant start on improving accountability and efficiency in the delivery of Government programs. By providing greater clarity in the responsibilities of departments, the concerns of Manitobans can be met more effectively.

A number of improvements are also planned to make Crown corporations more responsible and accountable to the people of Manitoba. Comprehensive legislation will be introduced to ensure an appropriate and effective structure for Crown corporation accountability. In this way, Manitobans can be assured that the Crowns are meeting the real needs of the province.

Additional action on both general Government operations and the Crowns will be taken following completion of the second and third phases of the Independent Review of management of Government and Crown corporations.

TAXATION

Our Progressive Conservative Government is committed to creating a stable and competitive taxation regime in Manitoba. As a first step in meeting that commitment, I am pleased to announce that there will be no increase in personal income taxes during our first term in office.

For the first time in many years, tax reductions will exceed tax increases.

Our Government will, however, be proceeding with a small number of the tax increases proposed in the former Budget.

- The tobacco tax will increase 0.9¢/cigarette effective September 12, 1988.
- The leaded gasoline surcharge will increase 0.9¢/litre effective September 1, 1988. With the surcharge, leaded and unleaded gasoline should be available at the same price in Manitoba. We are committed to the national goal of reducing lead emissions in the environment.
- The aviation fuel tax rate will increase by 1¢, to 5.8¢/litre effective September 1, 1988. This is half the increase proposed in the previous Budget.

These measures will add $8.4 million to revenue this year.

MINING TAXES

Most Manitobans recognize the importance of protecting the competitive position of the Manitoba mining industry and its ability to generate jobs and incomes for Manitobans. For this reason, we will not proceed with a number of measures previously proposed, including the so-called special 7% refundable tax, the doubling of the mining claim lease tax, the reduction in the effective processing allowance rate from 10% to 8%, and the termination of the Mining Community Reserve Fund.

We are proceeding with a more limited set of mining tax increases. Specifically, the mining tax rate is increased to 20% from 18%, and processing allowances greater than 10% of processing assets will no longer be permitted.

These changes are effective for the full 1988 year and will add $21 million to revenue this year.

Members will recall that the 7% refundable tax had been proposed to correct unfairness in a federal-provincial formula for allocating corporate taxable income of mining companies among the provinces. However, the mining companies would still have to pay corporation income tax on the same income to other jurisdictions. In our view, the resulting double taxation on mining companies would be a major disincentive to increased mining activity in our province.

I am pleased, however, that the Mining Association has agreed to work with Manitoba and other jurisdictions to propose changes to the federal-provincial tax allocation rules. We are hopeful that solutions will be developed through this co-operative process.

I am also pleased to announce that the Manitoba Mining Association and the Manitoba Government will establish a joint task force to investigate and recommend cost-effective ways of enhancing mining and processing in Manitoba.

We are confident that this co-operative approach will be mutually beneficial to the mining industry and Manitobans.

PERSONAL TAXES

As mentioned a moment ago, there will be no increase in personal income taxes. There will be no increases in retail sales taxes.

Tax Reform

In fact, Manitobans will benefit from a $52 million reduction in their provincial income taxes this year, as we move to ensure that the benefits of National Tax Reform are passed on in full to Manitobans. Manitoba taxpayers will also benefit from a $91 million reduction in federal income taxes.

For example, typical families of four will receive the following federal and Manitoba income tax reductions:

- $841 at $25,000 in annual income;
- $366 at $35,000 in annual income; and
- $197 at $50,000.

Motor Vehicle Fees

In light of the improved financial situation of the Province, we have decided not to proceed with the previously planned $8 million, 25% increase in motor vehicle registration fees at this time.

BUSINESS TAXATION

We are committed to creating a more competitive environment to foster job creation through business investment and growth. Therefore, there will be no increase in corporation income taxes or capital taxes. The railway fuel tax will not be increased as proposed by the former government.

Tax reductions will be provided to help small business.

Payroll Tax Exemption

Manitoba's payroll tax is a major disincentive to the creation of new jobs in Manitoba. Investors cringe when they hear Manitoba is one of only two jurisdictions in North America with a payroll tax.

During the election campaign, we promised to double the exemption under the payroll tax, effective January 1, 1989.

Today, I am especially pleased to announce that the payroll tax exemption will be tripled from $100,000 to $300,000, effective next January 1st. Employers with payrolls between $300,000 and $600,000 will benefit from a reduction in their payroll taxes.

The payroll tax will be eliminated for 46% of currently taxable employers, and reduced for an additional 17% under this measure. Almost two-thirds of currently taxable employers will benefit from payroll tax reductions.

We will also be introducing technical changes to exempt the trucking industry from the payroll tax on out-of-province activities.

Revenue will be reduced by $3.9 million in the current fiscal year and an estimated $23.3 million in 1989/90 as a result of these measures.

Small Business Taxes

Our Government is keenly aware that the prosperity of our province depends on homegrown businesses. The future health of the Manitoba economy requires enterprising Manitobans, people with new products and new ideas, to start new businesses and to create new jobs.

We want to send a clear signal that our Government recognizes the importance of these people. The increased payroll tax exemption will remove a major disincentive for small- and intermediate-sized Manitoba enterprises. We want to stimulate entrepreneurship and increase business activity. Small business men and women are prepared to pay their fair share of taxes. We want to help them in the critical first few years of operation.

This afternoon, I take great pleasure in announcing a further initiative to encourage new small businesses. Businesses incorporated after August 8, 1988, and before January 1, 1991, will be eligible for a corporate income tax holiday in their first year of operation, and phased reductions over the next four years.

The ability to retain more earnings to invest and employ more people will generate more economic activity and more tax revenue in the longer term.

Regulatory Reform

Finally, we will also undertake consultations with the business community in the area of regulatory reform. Specifically, the review will concentrate on improving business input into the design of regulations, and to finding ways to reduce red tape.

Governments in Canada commenced regulatory reform nearly ten years ago. In recent years, relatively little progress has been made in Manitoba. We are pleased to respond to the repeated calls for such reform, particularly from small and independent businesses where the burden is greatest.

After a series of Budgets which imposed new taxes and increased old taxes, Manitoba people and businesses will be relieved that tax reductions outlined in this Budget outweigh increases by more than two to one.

SUMMARY OF 1988 TAXATION ADJUSTMENTS

Full-Year Revenue Effect ($ millions)

	Reductions	Increases
Personal Income Tax Reform Changes	52.0	
Payroll Tax Exemption	23.3	
New Small Business Tax Reduction	1.0	
Mining Tax Adjustments		21.0
Leaded Gasoline Surcharge		2.5
Aviation Fuel Increase		2.0
Tobacco Tax Increase		11.0
Total	76.3	36.5

Restoration of a competitive tax environment is fundamental to the rekindling of business and investor confidence, job creation, and capital investment. The proposals in this Budget — keeping the lid on personal income taxes, rolling back some of the increases proposed in the defeated Budget, eliminating the payroll tax for half the taxable employers in Manitoba and the tax holiday for new small businesses — are important steps in that direction.

THE BUDGET PLAN

This Budget begins the process of regaining control of the Province's finances.

Total budgetary expenditure is estimated at $4.561 billion, up 6.7% from last year's actual spending before extraordinary expenditure. Revenue is estimated at $4.365 billion, up 8.6%. As a result, the deficit, including both current and capital spending, is estimated at $196 million, the lowest in this decade. Capital spending alone totals $278 million.

1988 BUDGET PLAN

	87/88 Prelim. Actual	88/89 Budget	Change	Change
	($ millions)			(%)
Budgetary Expenditure:				
Before Extraordinary Expenditure	4,273	4,561	287	6.7
Extraordinary Expenditure	75	n/a	<75>	n/a
Total Budgetary Expenditure	4,349	4,561	212	4.9
Budgetary Revenue	4,038	4,365	327	8.1
Deficit	311	196	<115>	<37.0>

Note: Totals may not add due to rounding

Total borrowing requirements amount to $1.288 billion. This includes funding for the Province's deficit, sinking fund allocations, non-budgetary capital requirements of Crown corporations and agencies, and refinancing of debt issues redeemed during the year.

The projected increase in the Province's total debt is $572 million, the smallest increase since 1982/83.

Multi-Year Budgeting

Record mining revenues, and the full-year effects of taxes imposed last year, boosted revenue growth this year. Without these special factors next year, revenue growth will slow significantly. Our future progress in reducing the deficit and stopping the growth in tax-supported debt, will depend on controlling growth in spending.

During the election, we promised to introduce multi-year budgeting. In our Budget for the next fiscal year, we will include an additional year's fiscal projection to help provide a more complete view of the context in which decisions must be made.

We cannot continue indefinitely with government spending growth at two times the rate of inflation, as has been the case in recent years. My goal in 1989 will be to hold overall spending increases near the rate of inflation.

CONCLUSION

This has been an extraordinary year in the political life of Manitoba. When our Government assumed office just three months ago, there was much to be done. The Province had to be put on a new course; sound fiscal management had to be restored; many aspects of Government operation had to be reviewed.

This Budget responds to those challenges. It ensures that spending meets the real needs of Manitobans, particularly in the vital areas of health and social services. It begins to rebuild an environment in this province which encourages investment and employment...an environment which allows creativity to flourish and our economy to grow. And it incorporates the first results of a thorough, independent examination of how to improve the management of public resources and make Government work better.

Manitobans will soon begin to see the results of these initiatives. This Budget marks the directions which we must follow. It is a signpost to a future which, with hard work and honest effort, holds the promise of hope and prosperity for all Manitobans.

Budget Paper A

THE ECONOMIC CONTEXT

Budget Paper A / THE ECONOMIC CONTEXT

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Manitoba Overview

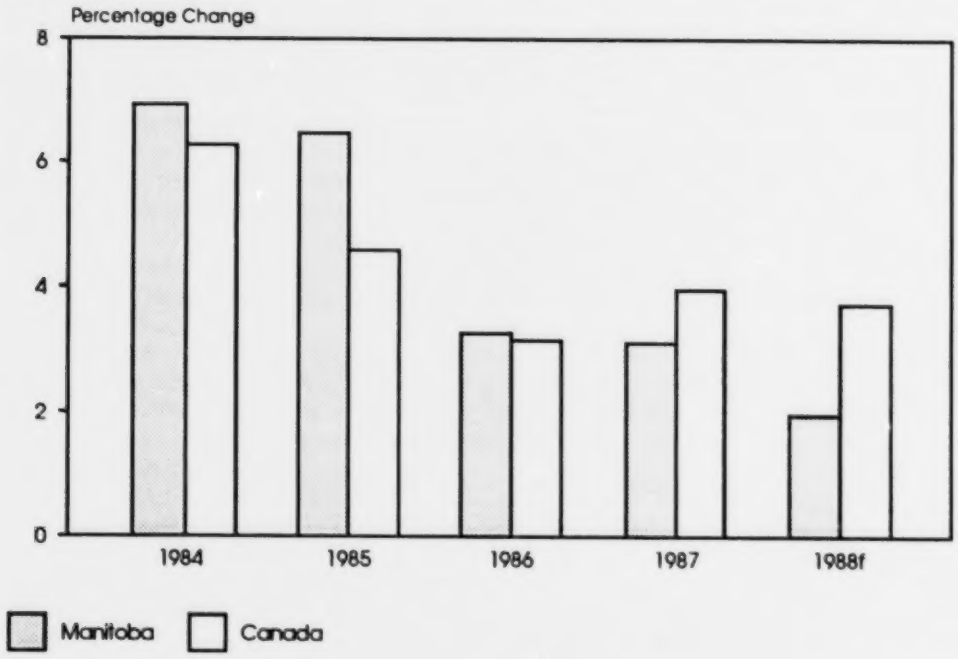
- Manitoba's Gross Domestic Product (GDP) is estimated at $20.3 billion in 1987, an increase of $1.2 billion, or 6.5%, from 1986. After accounting for inflation, real GDP increased by an estimated 3.1%, almost matching the 3.3% increase in 1986, but below the 4.0% growth in Canada in 1987. International exports contributed substantially to overall growth, while growth in domestic demand slowed. The unemployment rate averaged 7.4% in 1987.

- From 1983 to 1987, real GDP growth in Manitoba averaged 5.0% per year compared with 4.5% in Canada.

- Earlier this year, forecasters predicted an increase in real GDP in Manitoba of 2.5% to 3% in 1988. However, as the impacts of the drought begin to be assessed, it appears that growth may be significantly lower, and possibly below 2%.

- In nominal terms, GDP is currently expected to increase by approximately 6% in 1988. The Consumer Price Index for Winnipeg is projected to increase by about 4% in 1988, and the unemployment rate to average about 7.5%.

Real Gross Domestic Product, Manitoba and Canada, 1984 to 1988



f — Forecast

Source: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Department of Finance

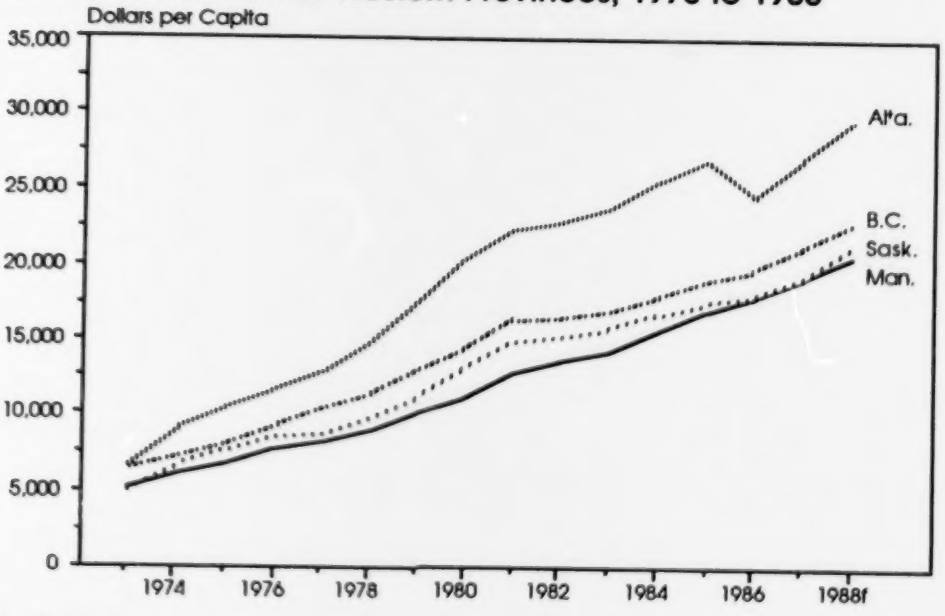
International and National Overview

- Output growth in industrialized countries is expected to slow from an average of about 3% in 1987 and 1988 to about 2.5% in 1989. Continued reductions in trade imbalances, which built up during the 1980s and were a major precipitating factor in the stock market crash of October 1987, would support prospects for international growth.

- In Canada, growth in real Gross Domestic Product (GDP) and employment continues to be strong relative to other industrial countries, but has slowed from the rapid pace set in 1987. Strong growth in non-residential investment is expected to offset slower growth in personal spending. The high level of economic activity in early 1988 is likely to mean that output in 1988 will average 3.5% to 4% higher than in 1987. In 1989, forecasters expect output to increase by 2% to 2.5%.

- Canadian growth has been uneven across regions, reflecting, in part, the impact of international commodity price movements and differences in industrial structure. Following the western resource development boom of the 1970s, growth in the 1980s has shifted to the industrialized central Canadian provinces. While Manitoba has shared in this growth, recent rates of expansion have been somewhat below the national average.

Gross Domestic Product per Capita Manitoba and Other Western Provinces, 1973 to 1988



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Source: Statistics Canada and Conference Board of Canada

Canadian Exchange and Interest Rates

	1980	1982	1985	1987	1988	
	(annual averages)				March 31	June 30
Exchange Rates: (Canadian $ per unit)						
U.S.	1.1690	1.2341	1.3652	1.3270	1.2341	1.2127
Japan	0.0052	0.0050	0.0058	0.0092	0.0099	0.0091
Germany	0.6444	0.5086	0.4677	0.7385	0.7455	0.6672
Switzerland	0.6986	0.6091	0.5615	0.8905	0.9058	0.8052
Interest Rates: (per cent)						
90-Day Commercial Paper	13.2	14.2	9.6	8.4	8.65	9.27
5-Year Mortgages	14.5	18.0	12.1	11.2	11.00	11.25
Consumer Prices: (per cent change)	10.2	10.8	4.0	4.4	4.1	3.9

Source: Statistics Canada and Bank of Canada Review

- Exchange rates have undergone major re-alignments in the 1980s. Both the Canadian and U.S. dollars appreciated against other major currencies in the early 1980s, and then fell in value dramatically from February 1985 to December 1987. From December 1987 to June 1988, the Canadian dollar appreciated approximately 20% against the Swiss and West German currencies, 10% against the Japanese yen and 7% against the U.S. dollar.

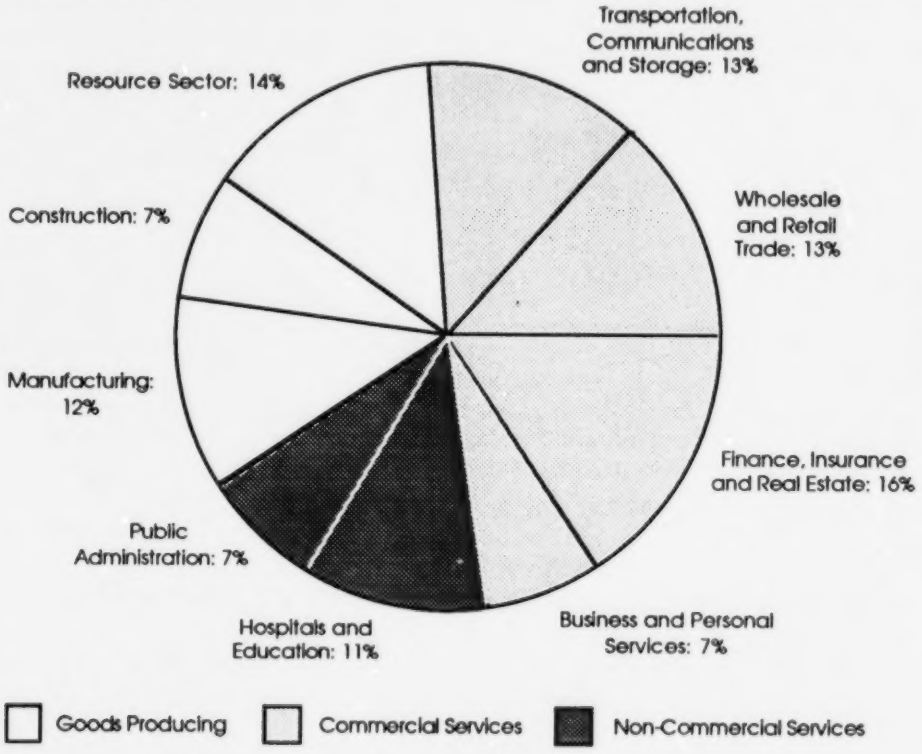
- The Canadian dollar remained in the 80¢ to 84¢ U.S. range from 1981 through 1983 before declining to a low of 69.1¢ U.S. in February 1986. On June 30, 1988, it stood at 82.5¢ U.S.

- Central banks in major industrial countries reduced interest rates following the October 1987 stock market crash. However, short-term commercial rates have since risen above levels prevailing a year ago in countries such as Canada, the U.S. and Britain. On June 30, 1988, the Canadian 90-day commercial paper rate was 9.27%, and the five-year mortgage rate was 11.25%.

- At their Annual Conference in May 1988, the Western Premiers called for lower interest rates in order to help maintain or stimulate new economic growth. The Premiers noted the often-uneven regional impacts of Bank of Canada and federal Department of Finance policies and, in addition to calling for lower rates, agreed that monetary policy and interest rates should be included on the agenda of the November 1988 First Ministers' Conference.

Gross Domestic Product by Industry, 1987

Per Cent of Total



Note: Based on GDP at factor cost in 1981 prices

Source: Conference Board of Canada

- Manitoba's resource sector (primarily agriculture, hydro-electric power generation, mining and forestry) accounts for approximately 14% of real Gross Domestic Product (GDP), slightly more than the 13% share in the overall Canadian economy, but less than half of the resource share in the other Prairie provinces.

- Construction accounts for 7% of GDP, approximately the same as in the other Prairie provinces.

- Manufacturing, at 12% of GDP, is more than twice the relative size of the manufacturing sector in Saskatchewan, and two-thirds larger than in Alberta.

- Commercial services (transportation and communications; trade; finance, insurance and real estate; and business and personal services) account for about half of GDP.

- Non-commercial services (public administration, hospitals and education) account for 18% of GDP. Both commercial and non-commercial services account for a larger share of GDP than in the other Prairie provinces.

Population, 1983 to 1987

	1983	1984	1985	1986	1987
	(number of persons except as noted)				
Population (June 1)	1,045,600	1,055,100	1,064,000	1,071,200	1,079,000
Population Increase*	12,300	9,500	8,900	7,200	7,800
(per cent change)	1.2	0.9	0.8	0.7	0.7

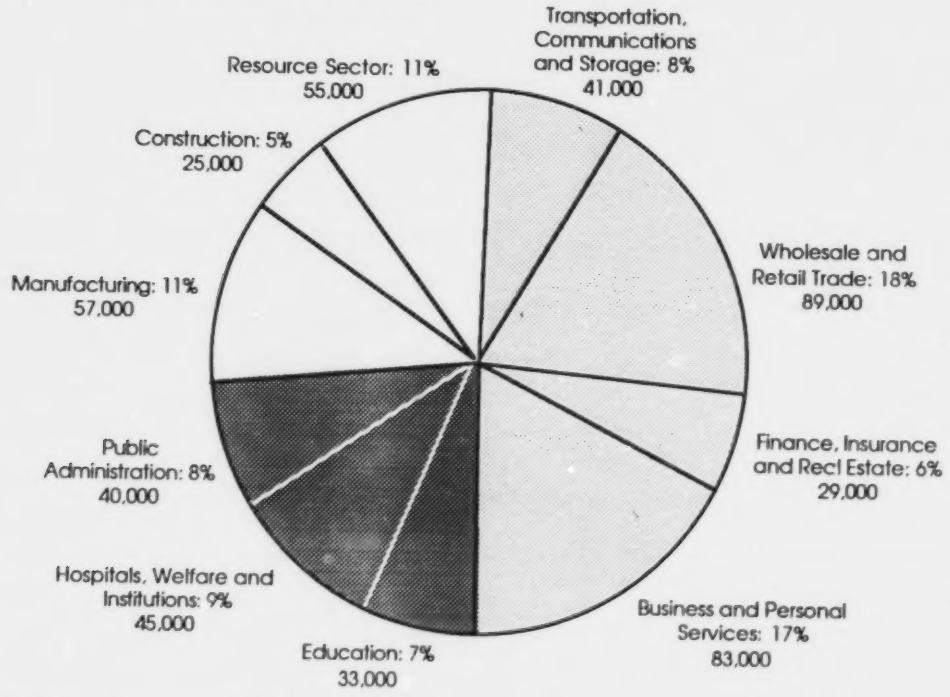
* Population increase is the sum of natural increase and net interprovincial and international migration

Source: Statistics Canada

- Manitoba's population is estimated at 1,083,600 on April 1, 1988.
- Over the past several years, the natural increase in population (births minus deaths) has been the main source of population growth. While net international migration has been relatively stable, net interprovincial migration flows have constrained overall population growth in recent years.
- Partly as a result of strong employment growth, Ontario and British Columbia have been the major recipients of net interprovincial migration in recent years. In the first quarter of 1988, they continued to gain population from most other provinces.

Employment by Industry, 1987

Per Cent of Total and Number of Employed


Transportation, Communications and Storage: 8% 41,000
Resource Sector: 11% 55,000
Construction: 5% 25,000
Wholesale and Retail Trade: 18% 89,000
Manufacturing: 11% 57,000
Finance, Insurance and Recl Estate: 6% 29,000
Public Administration: 8% 40,000
Hospitals, Welfare and Institutions: 9% 45,000
Business and Personal Services: 17% 83,000
Education: 7% 33,000
Total Employment: 497,000
Goods Producing
Commercial Services
Non-Commercial Services

Source: Statistics Canada

- The resource and manufacturing sectors each account for approximately 11% of total employment in Manitoba, and construction accounts for about 5%. The goods producing sector as a whole accounts for 27% of employment and 33% of real GDP in Manitoba, reflecting the greater capital intensity in goods compared with service production.

- Commercial services account for about half of employment and real GDP in Manitoba.

- Non-commercial services account for about 24% of employment and 18% of real GDP in Manitoba, reflecting lower capital intensity than the overall economy.

Labour Market, 1983 to 1987

	1983	1984	1985	1986	1987	First Half 1988*
	(thousands of persons)					
Population 15 and over	774	784	795	803	809	813
Labour Force	508	515	523	533	537	539
Employed	460	472	480	493	497	498
Agriculture	41	42	47	46	41	39
Non-Agriculture	420	430	433	446	456	459
Unemployed	48	43	43	41	40	41
	(per cent)					
Participation Rate	65.6	65.7	65.8	66.4	66.4	66.3
Unemployment Rate	9.4	8.3	8.1	7.7	7.4	7.6

* January to June average of seasonally adjusted values

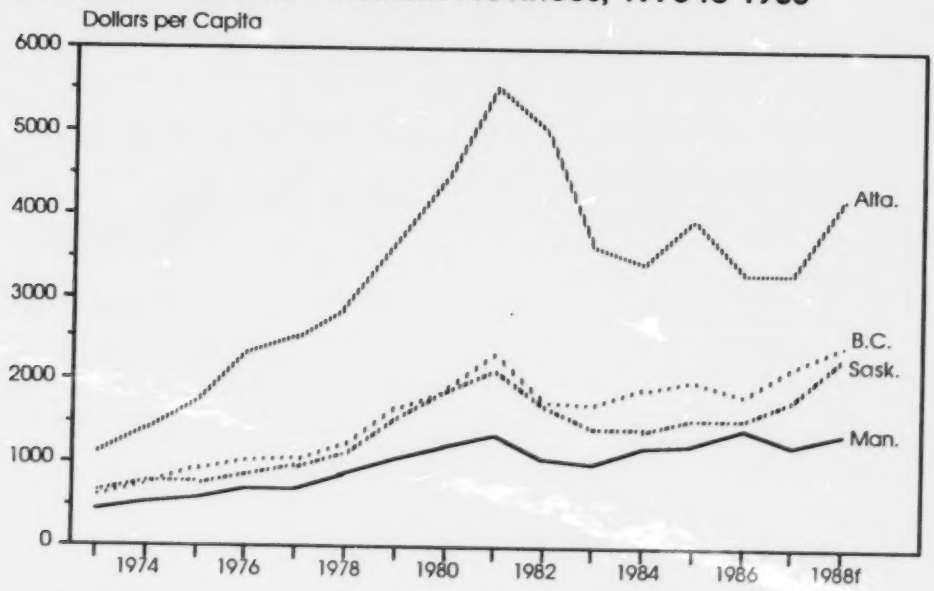
Source: Statistics Canada and Manitoba Department of Finance

- In 1987, employment in Manitoba averaged 497,000, representing 61.4% of the population of labour force age (15 years and over). Manitoba's unemployment rate averaged 7.4%, and was third lowest among provinces, as it has been for most of the past two decades.

- Over the first half of 1988, employment in Manitoba, on a seasonally adjusted basis, averaged 498,000, little changed from a year earlier. Significant employment increases have been estimated in the first half of 1988 in the transportation and communications, manufacturing, and other primary industries. Lower employment has been estimated in construction, agriculture, and some service industries.

- The seasonally adjusted unemployment rate averaged 7.6% over the first half of 1988.

Private Non-Residential Capital Investment, Manitoba and Other Western Provinces, 1973 to 1988



f — Forecast

Source: Statistics Canada

- Capital investment is projected at $4 billion in 1988, an increase of 10.6% from 1987. Housing construction is expected to account for $1.1 billion of capital investment in 1988.

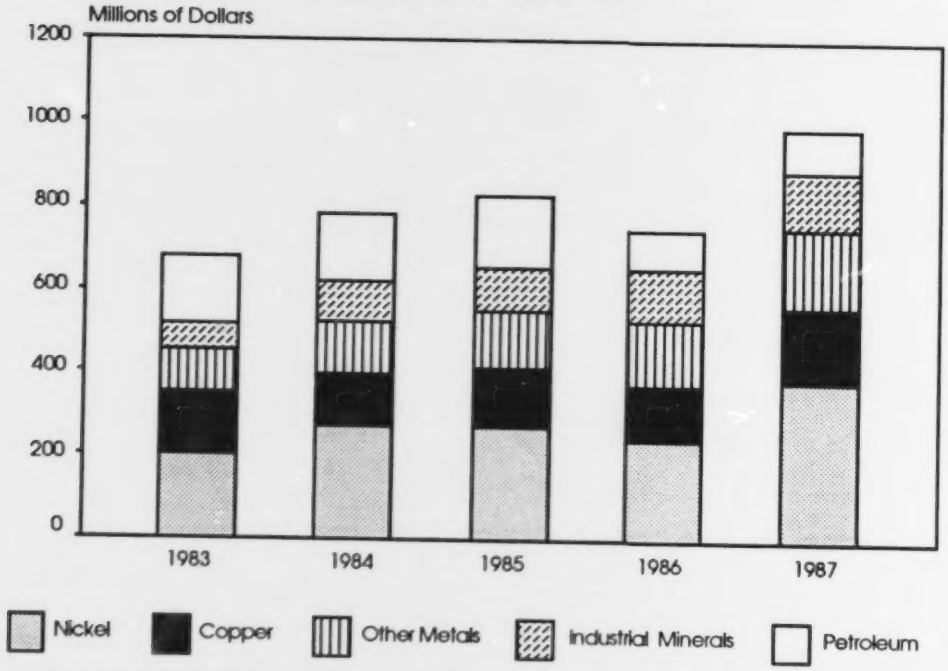
- Among non-residential industries, transportation, communications and other utilities (including hydro development) account for $987 million, or 34%; trade, finance and commercial services account for $633 million, or 22%; institutions and government departments account for $590 million, or 21%; primary industries and construction account for $462 million, or 16%; and manufacturing accounts for $192 million, or 7%.

- The historical level of capital investment in Manitoba reflects, in part, the province's industrial structure. Lesser dependence on capital intensive primary industries accounts for a large portion of both the difference in level and the stability of per capita non-residential investment spending compared with other Western provinces.

- Manitoba experienced neither the resource investment boom of the 1970s nor its collapse in the 1980s. Nonetheless, a number of factors have constrained investment spending: low agricultural prices have dampened investment on Manitoba farms and in agriculture-related industries; the more general downturn in the western resource economy has resulted in a loss of markets for Manitoba business; and concern has been expressed regarding recent increases in Manitoba's business taxes.

- Private sector, non-residential capital investment is projected at $1.5 billion in 1988, an increase of 9.4% from 1987.

Value of Mineral Production, 1983 to 1987



Source: Manitoba Department of Energy and Mines

- The total value of mineral production in Manitoba increased by 33% in 1987, to $1,015 million, the highest level in the province's history.

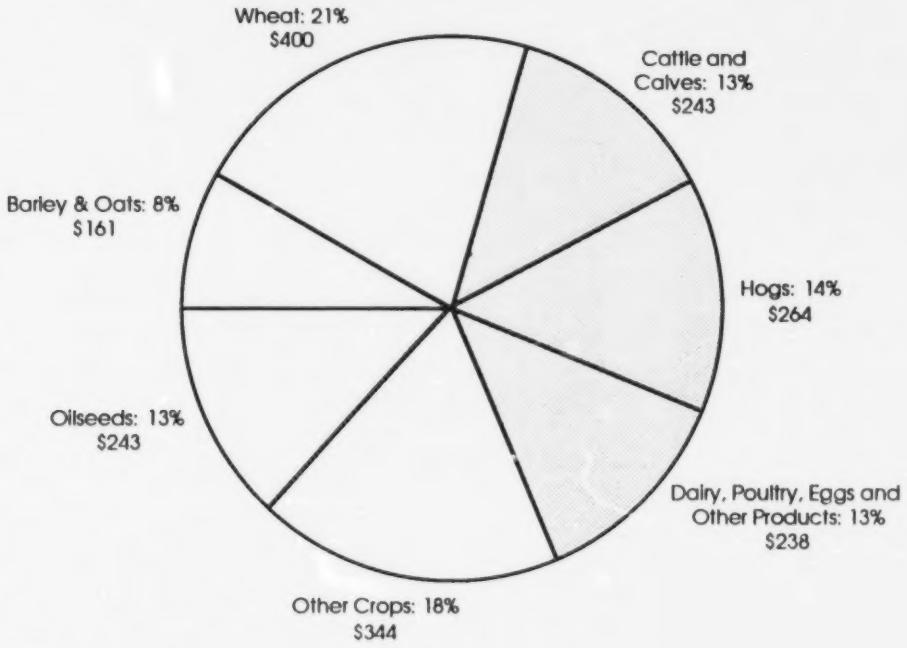
- The value of metal production increased by 42% in 1987, to about $760 million. Particularly strong increases were recorded for nickel (up 56%, to a record $386 million), copper (up 29%, to $173 million) and gold (up 70%, to $71 million). Industrial minerals and petroleum recorded increases of 9% and 15%, respectively.

- In response to stronger demand, the volume of nickel production increased in 1987 by one-third, to its highest level in 12 years. Further increases in nickel production are projected with the mine at Namew Lake starting production in the fourth quarter of 1988. The opening of two new gold mines in the province contributed to a 48% increase in gold production in 1987. Also, tantalum production is scheduled to resume this summer with the reopening of the mine at Bernic Lake.

- Despite some softening since early 1988, metal prices are expected to average significantly higher in 1988 than in 1987. Compared to 1987 averages, June 1988 prices on the London Metals Exchange were up 219% for nickel, 70% for zinc and 43% for copper.

Agricultural Production, 1987

Per Cent of Total and Millions of Dollars



Total Value: $1,893 million

Crops Livestock and Other

Note: Oilseeds include canola, and flax, sunflower and mustard seed
Other Crops include hay, $113 million, and potatoes, $56 million

Source: Manitoba Department of Agriculture

- The diversity of agricultural production in Manitoba, and its contribution to greater stability in overall farm income, have been particularly important in recent years when international grain markets weakened due to oversupply. However, lower grain prices, as well as unfavourable weather conditions, contributed to a 4% decline in the value of production in 1987, to $1.9 billion.

- The worst drought on the Prairies in recent memory has seriously reduced crop yields for wheat, oats, barley and flaxseed, and substantially increased livestock feed prices in 1988. July rains came too late for many heat- and drought-stressed crops.

- Because the drought has been widespread throughout Canada and the United States, crop prices have risen in anticipation of reduced supplies. Nonetheless, the value of agricultural production is expected to decline in 1988, for the third successive year.

Farm Income, 1983 to 1988

	1983	1984	1985	1986	1987	1988f
			(millions of dollars)			
Cash Receipts						
Crops	1,122	1,219	1,240	1,298	1,101	1,080
Livestock	614	683	716	761	805	756
Other Income*	54	59	54	46	188	215
Realized Gross Income	1,789	1,961	2,010	2,105	2,093	2,051
Farm Expenses	1,541	1,617	1,650	1,591	1,538	1,560
Realized Net Income	**249**	**344**	**360**	**514**	**556**	**491**
Inventory Change	-166	14	290	-93	-53	-
Total Net Income	**83**	**358**	**649**	**421**	**502**	**-**

f - Forecast

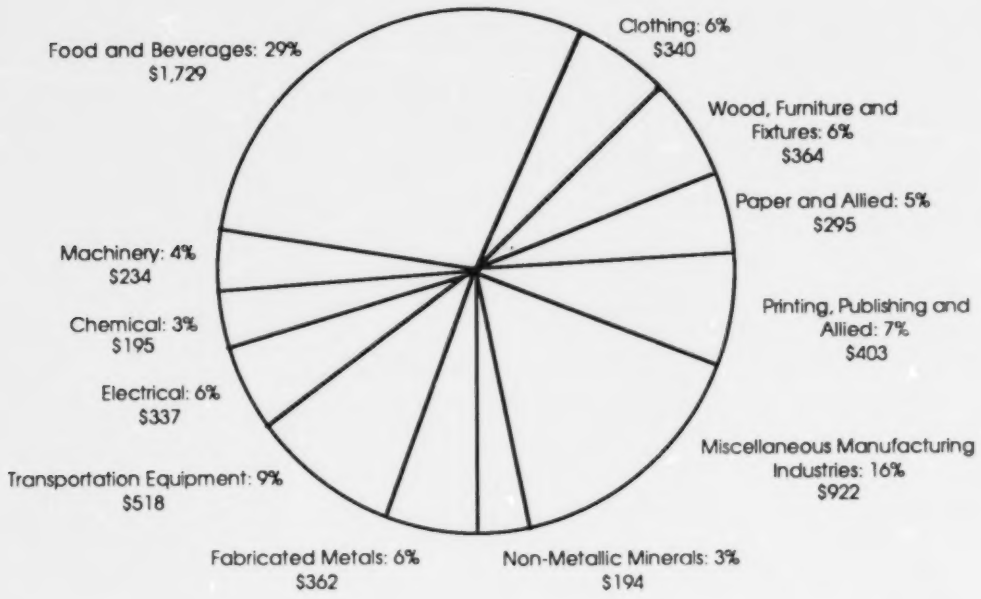
* Includes deficiency, stablilization and supplementary payments and income-in-kind

Source: Statistics Canada

- Even with significant crop price increases, cash receipts for both crops and livestock are expected to decline in 1988.
- Stabilization and income support programs, mainly the responsibility of the federal government, are expected to contribute about 10% of gross farm income in 1988. Nonetheless, gross income is expected to decline for the second consecutive year.
- Overall farm expenses are projected to increase slightly in 1988.
- Realized net farm income in Manitoba, which increased by about 8% in 1987, is forecast to decline by about 12% in 1988, to $491 million.
- Although estimates are not yet available, a further reduction in farm inventories is expected to contribute to a decline in total net income in 1988.

Manufacturing Shipments, 1987

Per Cent of Total and Millions of Dollars



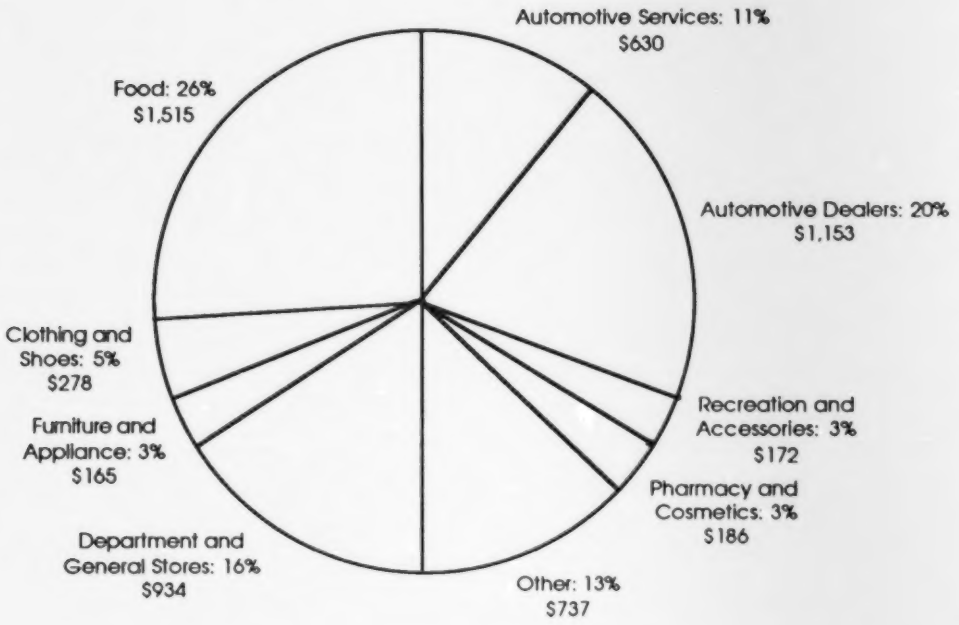
Total Value of Shipments: $5,894 million

Source: Statistics Canada

- In 1987, the value of manufacturing shipments increased by almost $194 million, to $5.9 billion.
- Over the first five months of 1988, compared to the same period in 1987, the value of manufacturing shipments was up 8.5% in Manitoba, and up 10% in Canada. The transportation equipment industry, which includes aerospace and buses, recorded the strongest growth in shipments, up 30%. Printing and publishing shipments were up 22%, and metal fabricating, up 10%. While food and beverage shipments were virtually flat, reductions were recorded in non-metallic minerals, clothing, and wood, furniture and fixtures industries.
- Following several years of decline, the machinery and chemicals industries have shown some recovery, with growth in the value of shipments of 20% and 13%, respectively, compared to the first five months of 1987.
- Employment in manufacturing industries has risen to 62,000 in the first half of 1988, an increase of 10% from the same period in 1987, but well below peak levels recorded at the beginning of the 1980s.

Retail Sales, 1987

Per Cent of Total and Millions of Dollars



Total Sales: $5,769 million

Source: Statistics Canada

- Retail sales increased by 6.0% in 1987, to an estimated $5.8 billion, while the value of wholesale trade increased by 11.2%, to almost $7.2 billion.
- Over the first five months of 1988, retail sales have been unusually volatile, averaging only 2.9% higher than for the same period in 1987. Increased sales were recorded for all major types of stores, except department stores.
- In addition to expected declines in net farm income, wage and salary growth in the Prairie provinces has been below growth in Canada in 1988, contributing to below national average growth in retail sales.

Outlook

- Lower inflation and improved productivity performance in the international economy in the 1980s, set the stage for the longest period of sustained economic growth in the past 40 years.

- In this context, 1988 marks the sixth year of economic expansion in Manitoba. Following growth in real Gross Domestic Product (GDP) of just over 3% in 1986 and 1987, growth in the 2% range is anticipated in 1988 and 1989. Nominal GDP growth is expected to be in the 6% range over this period.

Manitoba Outlook, 1988

	Per Cent Change except as noted
Gross Domestic Product	6
Real Gross Domestic Product	2
Personal Income	5.5
Capital Investment	10.6
Employment	less than 1
Unemployment Rate (%)	7.5

Source: Survey of Forecasters and Manitoba Department of Finance

Investment

- Capital investment in Manitoba is projected to increase by 10.6% in 1988, to $4 billion, making a significant contribution to growth in both nominal and real GDP. In 1988, non-residential investment is expected to increase by about 16%. This increase reflects modernization and additions to productive capacity, particularly in the manufacturing, mining, electric utilities and transportation sectors; new office space; and head office expansions. The backlog of demand for housing was reduced over the 1985 to 1987 period, such that the number of housing starts in 1988 is expected to return to more sustainable levels, consistent with underlying demographic demand.

Incomes and Prices

- Personal income in Manitoba is expected to increase by about 5.5% in 1988. Slower growth is projected for all major components of personal income, while farm income is projected to decline. Personal disposable income is also expected to increase about 5.5% in 1988.

- Consumer price increases in Manitoba have remained moderate, with the increase in the Consumer Price Index for Winnipeg remaining in the 4% range in 1988, as in 1987. Improved international markets for metals such as nickel and copper, and grains, have raised export prices from the depressed levels earlier in the 1980s.

Sectoral Developments

- Many farmers expect grain yields will be well below average as a result of early-summer drought conditions. July rains have improved agricultural prospects, but arrived too late to effect a full recovery of heat- and drought-stressed crops. Livestock producers and the agricultural transportation, storage and processing industries, are also experiencing the direct impact of the drought. While the greater diversification of the Manitoba economy, compared to the other Prairie provinces, provides a measure of resilience to overall economic activity, the impact of the drought is expected to be widely felt.

- Manitoba's mining sector experienced a record year in 1987. The opening of a new nickel mine at Namew Lake and the reopening of the tantalum mine at Bernic Lake are contributing to continued strong growth prospects for 1988.

- In 1988, Manitoba's manufacturing sector is expected to post strong growth. Investment intentions indicate a 16% increase in capital spending in 1988. The value of manufacturing shipments up to May 1988, was 8.5% higher than for the same period in 1987.

- Manitoba's utilities sector has been adversely affected by the Prairie drought. As a consequence of lower water levels, overall power generation declined in 1987, and this reduction has continued in the first half of 1988. Above-average precipitation is required in most areas of the drainage basin to return hydro-electric generation to normal levels.

- Growth in personal disposable income is expected to support continued growth in Manitoba's service producing sector.

Labour Market

- Employment growth in Manitoba in 1988 has been concentrated in manufacturing and transportation, where output and investment increases are strongest. Further declines in agricultural employment, and losses in construction and some service industries, however, are dampening overall employment growth. As a consequence, employment growth of less than 1%, and an average unemployment rate of approximately 7.5%, are expected.

Fiscal Outlook

- Following two years of revenue growth substantially augmented by Budget measures and special temporary factors, revenue in 1989 and beyond is likely to increase more in line with growth in Gross Domestic Product. This, along with the commitment to hold the line on personal income taxes and restore a more competitive economic environment, implies that further substantial deficit reduction would rely to a greater extent upon achieving lower rates of expenditure growth.

- The Government's commitment to multi-year fiscal planning will be reflected in its first full Budget year in 1989/90, with the presentation of additional information on the Province's financial position.

MANITOBA ECONOMIC STATISTICS, 1983 to 1987

	1983	1984	1985	1986	1987p
	(millions of dollars except as noted)				
GROSS DOMESTIC PRODUCT	14,913	16,536	17,976	19,038	20,268
SECTORS					
Agricultural Production	1,985	2,302	2,431	1,964	1,893
Manufacturing Shipments	4,858	5,042	5,552	5,700	5,894
Mineral Production	694	817	861	764	1,015
Electric Power Sales	476	532	578	614	608
Housing Starts (units)	5,985	5,308	6,557	7,699	8,174
Retail Trade	4,100	4,514	5,201	5,444	5,769
INCOME					
Farm Cash Receipts	1,770	1,941	1,993	2,086	2,073
Total Personal	13,192	14,593	15,921	16,871	18,126
Personal Disposable	11,100	12,365	13,505	14,120	15,085
Wages and Salaries	7,592	8,178	8,648	9,366	9,991
INVESTMENT					
Total*	2,184	2,538	3,200	3,584	3,588
Non-Residential	1,756	2,111	2,382	2,584	2,467
Housing*	429	427	818	1,001	1,121
POPULATION					
June 1 (000's)	1,046	1,055	1,064	1,071	1,079
JOBS					
Labour Force (000's)	508	515	523	533	537
Employment (000's)	460	472	480	493	497
Participation Rate (%)	65.6	65.7	65.8	66.4	66.4
Unemployment Rate (%)	9.4	8.3	8.1	7.7	7.4
CONSUMER PRICES (Winnipeg)					
(Index , 1981 = 100)	116.1	120.3	125.3	130.9	136.4

p - Preliminary

* Estimates for 1985 to 1987 reflect revisions to Statistics Canada's methodology for estimating housing investment, while data prior to 1985 have not been revised

Source: Statistics Canada, Manitoba Bureau of Statistics and Manitoba Department of Finance

1983	1984	1985	1986	1987p	
	(per cent change)				
6.4	10.9	8.7	5.9	6.5	**GROSS DOMESTIC PRODUCT**
					SECTORS
-1.5	16.0	5.6	-19.2	-3.6	Agricultural Production
0.1	3.8	10.1	2.7	3.4	Manufacturing Shipments
26.0	17.8	5.4	-11.3	32.9	Mineral Production
8.1	11.8	8.6	6.2	-1.0	Electric Power Sales
194.8	-11.3	23.5	17.4	6.2	Housing Starts (units)
7.0	10.1	15.2	4.7	6.0	Retail Trade
					INCOME
3.9	9.7	2.7	4.7	-0.6	Farm Cash Receipts
5.6	10.6	9.1	6.0	7.4	Total Personal
4.8	11.4	9.2	4.6	6.8	Personal Disposable
5.9	7.7	5.7	8.3	6.7	Wages and Salaries
					INVESTMENT
11.7	16.2	26.1	12.0	0.1	Total*
-1.1	20.2	12.8	8.5	-4.5	Non-Residential
137.7	-0.3	91.4	22.4	12.0	Housing*
					POPULATION
1.2	0.9	0.8	0.7	0.7	June 1 (000's)
					JOBS
2.4	1.4	1.6	1.9	0.8	Labour Force (000's)
1.3	2.6	1.7	2.7	0.8	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
					CONSUMER PRICES (Winnipeg)
6.7	3.6	4.2	4.5	4.1	(Index , 1981 = 100)

Note: Per cent changes are based on unrounded data

Budget Paper B

FINANCIAL STATISTICS

Budget Paper B / FINANCIAL STATISTICS

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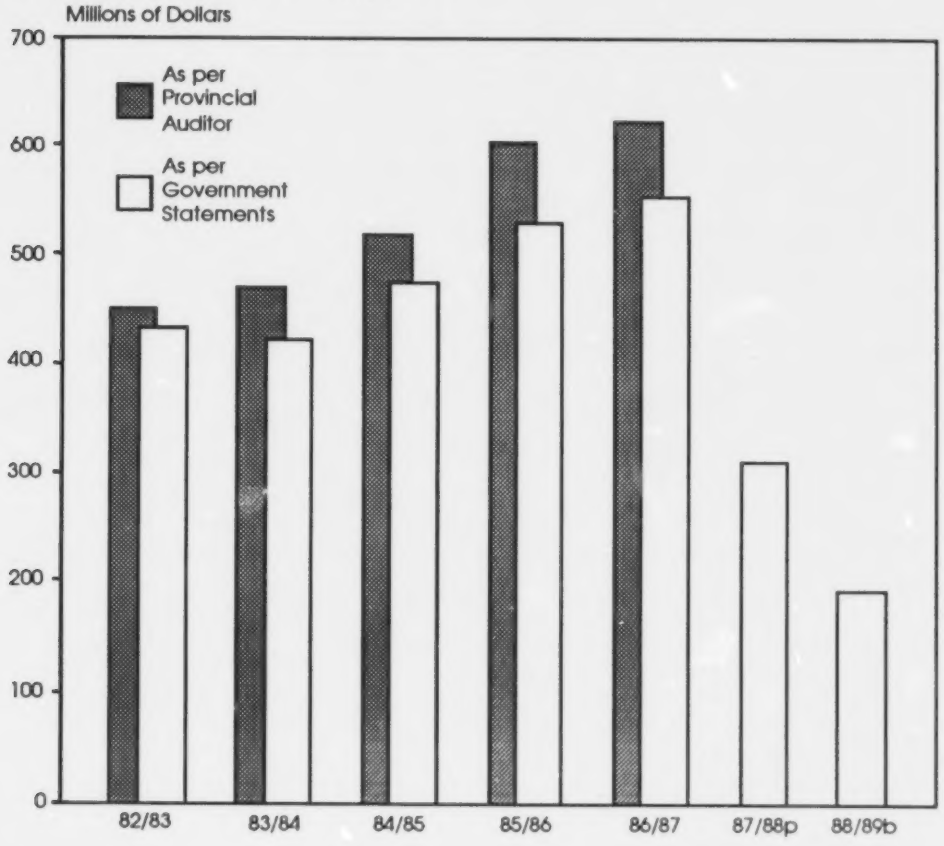
Manitoba's Budgetary Requirements

Summary, 1982/83 to 1988/89



p — Preliminary b — Budget

Comparative Statement of Budgetary Revenue and Expenditure

1987/88 and 1988/89

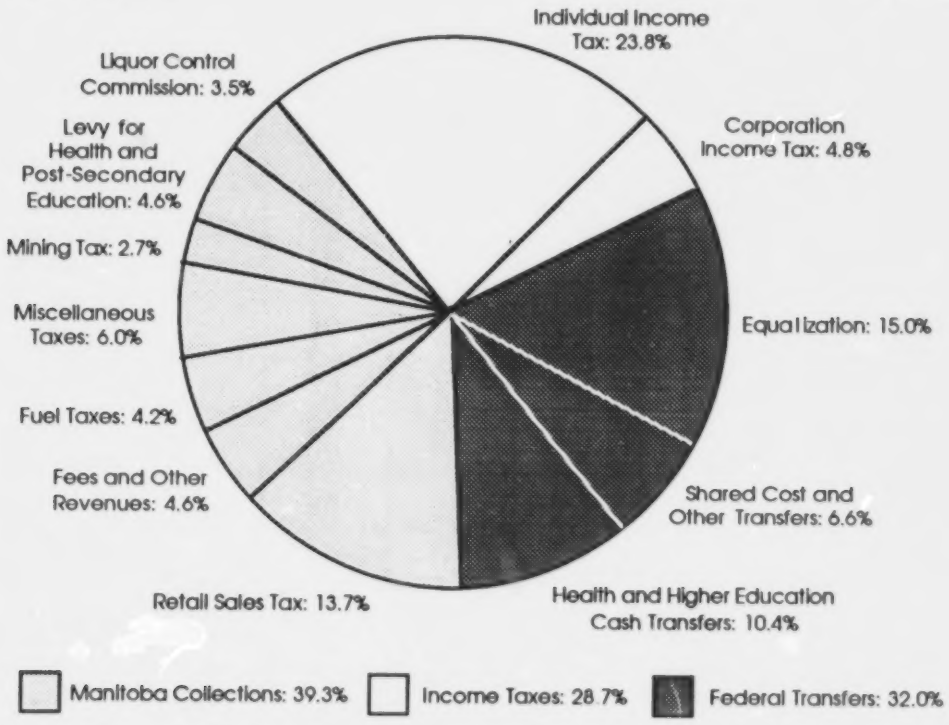
	1987/88 Preliminary Actual	1988/89 Budget	Change	Change
		($ millions)		(%)
Budgetary Expenditure:				
Before Extraordinary Expenditure	4,273	4,561	287	6.7
Extraordinary Expenditure	75	n/a	<75>	n/a
Total Budgetary Expenditure	4,349	4,561	212	4.9
Budgetary Revenue	4,038	4,365	327	8.1
Deficit	311	196	<115>	<37.0>

Note: Totals may not add due to rounding

Provincial Revenue, 1988/89

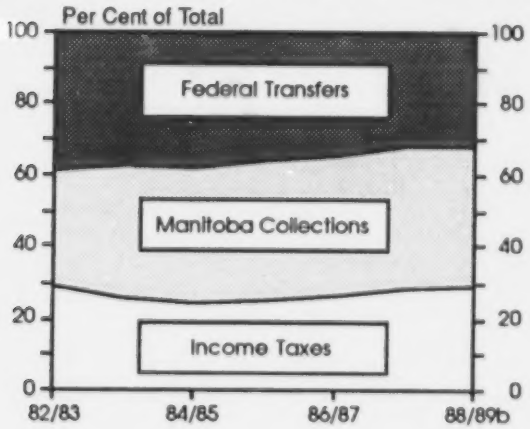
Major Sources

Per Cent of Total


Individual Income Tax: 23.8%
Corporation Income Tax: 4.8%
Equalization: 15.0%
Shared Cost and Other Transfers: 6.6%
Health and Higher Education Cash Transfers: 10.4%
Retail Sales Tax: 13.7%
Fees and Other Revenues: 4.6%
Fuel Taxes: 4.2%
Miscellaneous Taxes: 6.0%
Mining Tax: 2.7%
Levy for Health and Post-Secondary Education: 4.6%
Liquor Control Commission: 3.5%
Manitoba Collections: 39.3%
Income Taxes: 28.7%
Federal Transfers: 32.0%

Note: Totals may not add due to rounding

Manitoba Revenue by Source, 1982/83 to 1988/89



	Manitoba Collections	Income Taxes	Federal Transfers
	(per cent of total)		
82/83	33.4	28.4	38.2
83/84	37.6	25.3	37.1
84/85	38.0	24.5	37.5
85/86	39.6	24.9	35.5
86/87	39.7	26.0	34.3
87/88p	38.9	28.6	32.5
88/89b	39.3	28.7	32.0

p — Preliminary Actual b — Budget

Source: Manitoba Department of Finance

Revenue Estimates

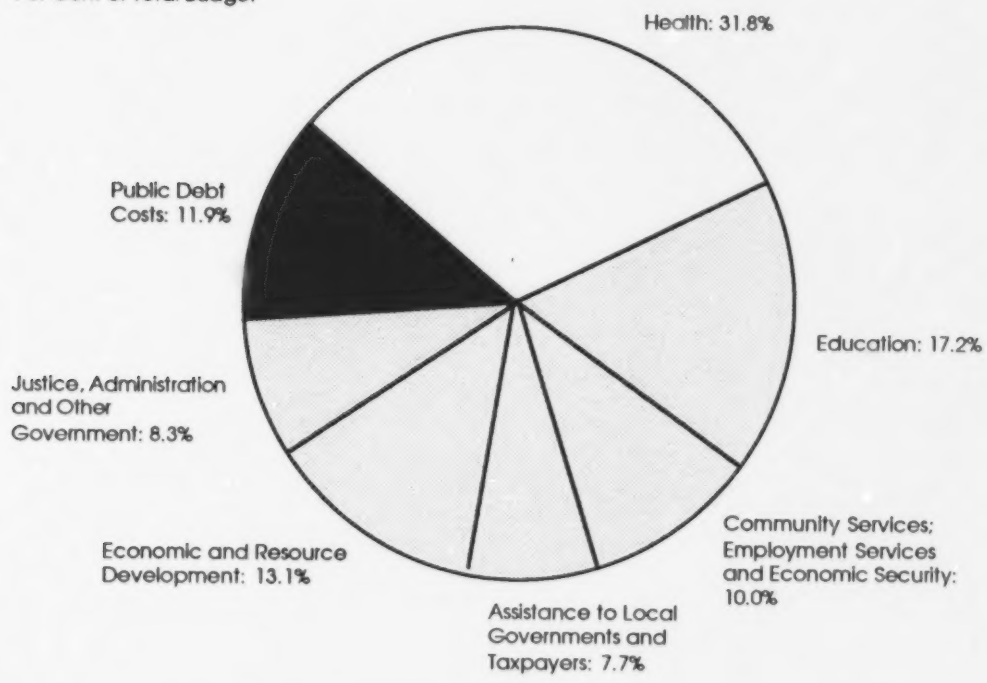
1988/89 and Preliminary Actual 1987/88

1987/88 Preliminary Actual			1988/89 Estimate	% Change
		OWN SOURCE REVENUE		
$1,569,750,442		**Manitoba Collections**	$1,713,868,800	9.2
		Taxes , Levies and Collections		
	$ 10,107,483	• Land Transfer Tax	$ 12,960,000	
	58,382,530	• Corporation Capital Tax	59,900,000	
	119,550,305	• Gasoline Tax	120,000,000	
	21,021,712	• Insurance Corporations Tax	21,000,000	
	187,537,909	• Levy for Health and Education	199,800,000	
	28,297,000	• Mining Tax	117,360,000	
	71,561,908	• Motive Fuel Tax	64,000,000	
	8,357,582	• Oil and Natural Gas Tax	8,300,000	
	566,998,872	• Retail Sales Tax	596,000,000	
	41,414,144	• Revenue Act, 1964, Part I	43,500,000	
	93,906,690	• Tobacco Tax	94,400,000	
	5,347,104	• Other Taxes	5,155,000	
	17,855,812	• Reciprocal Taxation Agreement	18,000,000	
	$1,230,339,051	Subtotal	$1,360,375,000	
		Fees and Other Revenue		
	$ 22,816,540	• Fines and Costs; Land Titles; and Other Legal	$ 22,754,100	
	5,410,675	• Minerals and Petroleum; and Other Energy and Mines	5,257,500	
	33,831,297	• Automobile and Motor Carrier Licences and Fees	34,288,200	
	7,081,435	• Drivers' Licences	7,758,000	
	31,921,444	• Water Resources	23,448,200	
	14,486,742	• Parks; Forestry; Fisheries; and Other Natural Resources	14,966,700	
	0	• Lottery Revenues for Health	10,000,000	
	72,411,650	• All Other Manitoba Collections	82,021,100	
	$ 187,959,783	Subtotal	$ 200,493,800	
	$ 151,451,608	**Liquor Control Commission**	$ 153,000,000	
$1,155,291,420		**Income Taxes**	1,251,900,000	8.4
	$ 167,024,866	• Corporation Income Tax	$ 211,100,000	
	988,266,554	• Individual Income Tax	1,040,800,000	
$1,312,962,994		**FEDERAL TRANSFERS**	1,398,803,300	6.5
	$ 620,464,000	**Equalization**	$ 655,700,000	
	$ 434,081,000	**Health and Higher Education Cash Transfer**	$ 455,000,000	
		Shared-Cost and Other Transfers		
	$ 174,674,800	• Canada Assistance Plan	$ 190,401,200	
	83,743,194	• Other	97,702,100	
	$ 258,417,994	Subtotal	$ 288,103,300	
$4,038,004,856		**TOTAL REVENUE**	$4,364,572,100	8.1

Provincial Expenditure, 1988/89

Major Categories

Per Cent of Total Budget


Health: 31.8%
Public Debt Costs: 11.9%
Education: 17.2%
Justice, Administration and Other Government: 8.3%
Community Services; Employment Services and Economic Security: 10.0%
Economic and Resource Development: 13.1%
Assistance to Local Governments and Taxpayers: 7.7%

Program Expenditure, 1988/89

Operating and Capital

	Operating Expenditure	Capital Expenditure	Total Program Expenditure	Share of Total Program
		($ millions)		(%)
Health	1,416	42	1,458	36.0
Education	763	29	792	19.6
Community Services; Employment Services and Economic Security	461	0	461	11.4
Assistance to Local Governments and Taxpayers	330	24	354	8.8
Economic and Resource Development	462	138	600	14.8
Justice, Administration and Other Government	357	19	376	9.3
Hydro Rates Stabilization	5	0	5	.1
Minor Capital	-26	26	0	0
Total	**3,768**	**278**	**4,046**	**100.0**

Expenditure Estimates

1988/89 and Preliminary Actual 1987/88

1987/88 Preliminary Actual			1988/89 Estimate	% Change
$1,336,997,561	**Health**		$1,458,135,200	9.1
766,308,265	**Education**		791,590,400	3.3
430,784,057	**Community Services; Employment Services and Economic Security**		461,115,200	7.0
$178,413,209	• Community Services	$194,549,800		
252,370,848	• Employment Services & Economic Security	266,565,400		
312,506,917	**Assistance to Local Governments and Taxpayers**		354,141,600	13.3
$ 39,522,801	• Municipal Affairs	$ 43,475,200		
64,262,116	• Urban Affairs	73,566,400		
208,722,000	• Tax Credit Programs	237,100,000		
544,204,258	**Economic and Resource Development**		599,957,600	10.2
$ 72,839,593	• Agriculture	$114,845,700		
24,035,921	• Energy & Mines	13,589,000		
208,647,108	• Highways & Transportation	218,517,500		
50,910,792	• Housing	48,227,300		
37,059,802	• Industry, Trade & Tourism	35,822,900		
98,545,071	• Natural Resources	108,757,700		
32,600,822	• Northern Affairs	31,822,400		
0	• Canada-Manitoba Enabling Vote	12,975,100		
505,011	• Crown Investments	0		
19,060,138	• Allowances for Losses	15,400,000		
339,428,843	**Justice, Administration and Other Government**		375,929,900	10.8
$ 9,785,385	• Legislation	$ 16,958,400		
2,620,186	• Executive Council	3,294,200		
126,209,536	• Attorney General	131,568,900		
61,169,320	• Civil Service	66,404,700		
8,421,340	• Co-operative, Consumer & Corporate Affairs	7,178,100		
19,225,853	• Culture, Heritage & Recreation	21,349,700		
12,195,902	• Environment & Workplace Safety & Health	14,859,700		
18,331,078	• Finance-Department Programs	20,350,600		
69,474,383	• Government Services (excl. MPI)	81,040,600		
10,035,194	• Labour	9,975,000		
0	• Seniors Directorate	200,000		
1,960,666	• Flood Control & Emergency Expenditures	2,750,000		
490,517,113	**Public Debt Costs**		545,035,700	11.1
$430,864,842	• Statutory	$483,272,100		
59,652,271	• Manitoba Properties Inc. (MPI)	61,763,600		
52,677,118	**Hydro Rate Stabilization**		4,636,200	<91.2>
0	**Less: Year-End Lapse**		30,000,000	
$4,273,424,132	**TOTAL BEFORE EXTRAORDINARY EXPENDITURE**		$4,560,541,800	6.7
75,445,887	**Extraordinary Expenditure**		0	
$4,348,870,019	**TOTAL BUDGETARY EXPENDITURE**		$4,560,541,800	4.9

Incremental Capital Authority Requirements for Non-Budgetary Programs, 1988/89

The Loan Act, 1988

Manitoba Telephone System		$45,500,000
Federal-Provincial Water and Sewer Agreement		33,500,000
Business Support		17,900,000
Industrial Opportunities Program	$13,500,000	
Venture Capital Program	1,000,000	
Manitoba Potash Corporation	2,400,000	
Manufacturing Adaptation Program	1,000,000	
Manitoba Mineral Resources Ltd.		16,000,000
Manitoba Data Services		5,000,000
Manitoba Hazardous Waste Management Corporation		2,200,000
Communities Economic Development Fund		1,000,000
		$121,100,000

Non-Budgetary Capital Program, 1988/89

Manitoba Hydro	$461,800,000
Manitoba Telephone System	208,200,000
Manitoba Housing and Renewal Corporation	96,000,000
Manitoba Agricultural Credit Corporation	48,900,000
Manitoba Mineral Resources Ltd.	40,300,000
Federal-Provincial Water and Sewer Agreement	33,500,000
Business Support	23,000,000
Manitoba Data Services	18,200,000
Manitoba Properties Inc	10,100,000
Manitoba Water Services Board	8,600,000
Miscellaneous Corporations and Agencies	37,900,000
Total Non-Budgetary Capital Program	**$986,500,000**

Statement of Valuation and Purpose of Bonds, Debentures, and other Long-Term Debt Outstanding

(in thousands) (preliminary unaudited)

As at June 30, 1988

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Exchange Rate as at June 30, 1988	Canadian Dollar Valuation (Note 1)	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:					
Canadian Dollars	4,200,334	$ 4,200,334	$1.00	$ 4,200,334	$ —
Foreign Issues Swapped to Canadian Dollars	595,632	534,429	1.00	595,632	39,756
U.S. Dollars	1,507,700	1,877,008	1.2127	1,828,388	(49,665)
Foreign Issues Swapped to U.S. Dollars	158,823	189,903	1.2127	192,604	7,939
Swiss Francs	1,521,800	1,109,867	0.8052	1,225,353	35,359
European Units of Account	1,000	1,080	3.2885	3,289	(59)
Japanese Yen	105,000,000	583,540	0.009080	953,400	205,290
Deutsche Marks	900,000	491,786	0.6672	600,480	61,192
Total Direct Debt		$ 8,987,947		$ 9,599,480	$ 299,812
Guaranteed Debt Payable in:					
Canadian Dollars	955,675	$ 955,675	$1.00	$ 955,675	$ —
U.S. Dollars	748,000	745,563	1.2127	907,100	—
Swiss Francs	80,000	54,280	0.8052	64,416	—
Total Guaranteed Debt		$ 1,755,518		$ 1,927,191	$ —
Total Direct & Guaranteed Debt		$10,743,465		$ 11,526,671	$ 299,812
Less: Sinking Funds		1,556,309		1,556,309	—
Net Direct & Guaranteed Debt		$ 9,187,156		$ 9,970,362	$ 299,812

As at March 31, 1988

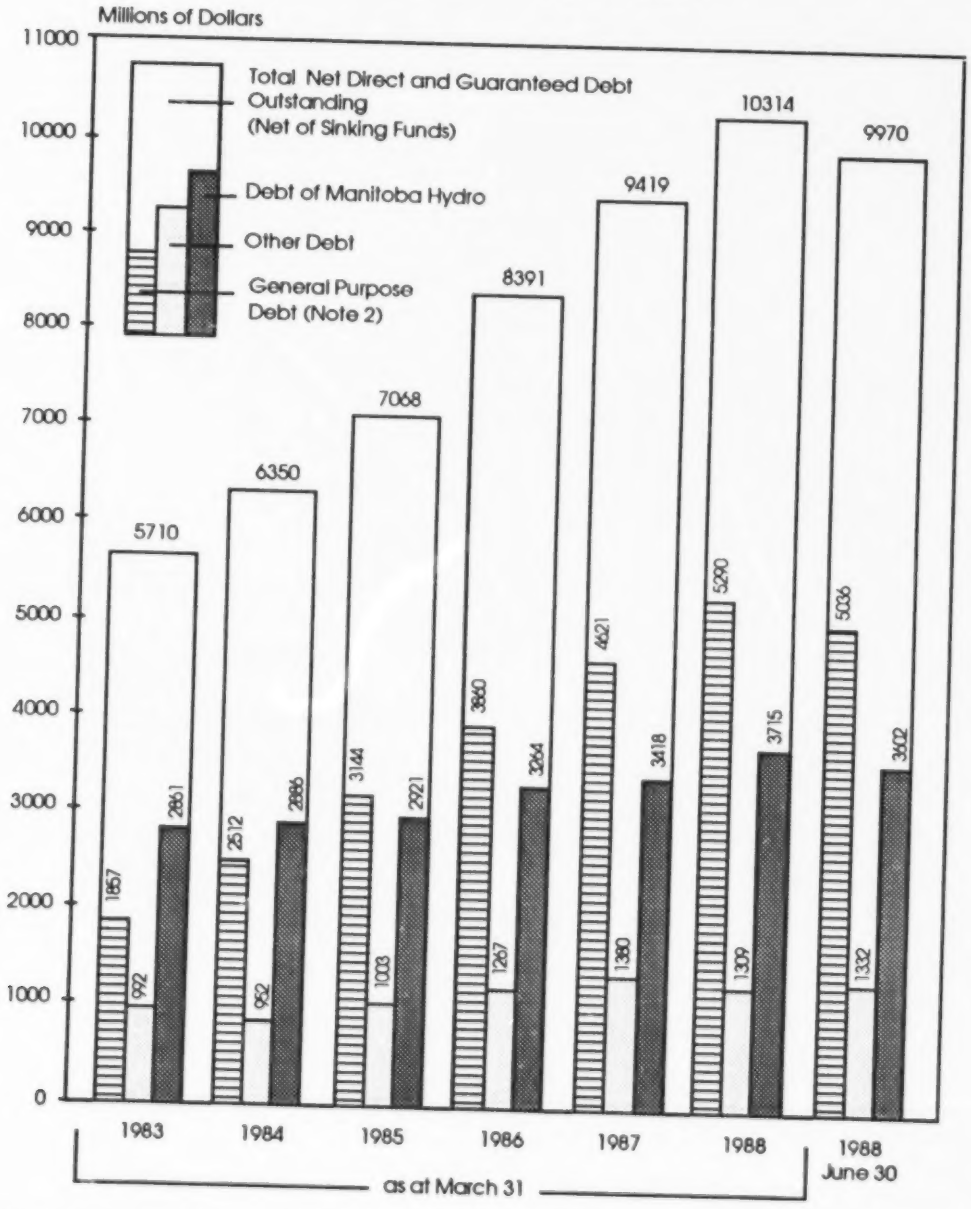
Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Exchange Rate as at March 31, 1988	Canadian Dollar Valuation (Note 1)	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:					
Canadian Dollars	4,148,523	$ 4,148,523	$1.00	$ 4,148,523	$ —
Foreign Issues Swapped to Canadian Dollars	505,318	487,527	1.00	505,318	17,791
U.S. Dollars	1,514,700	1,885,002	1.2341	1,869,291	(17,522)
Foreign Issues Swapped to U.S. Dollars	106,823	126,298	1.2341	131,830	(782)
Swiss Francs	1,593,800	1,139,769	0.9058	1,443,664	201,618
European Units of Account	2,000	2,160	3.6994	7,399	560
Japanese Yen	115,000,000	635,080	0.009944	1,143,560	319,279
Deutsche Marks	900,000	491,786	0.7455	670,950	131,662
Total Direct Debt		$ 8,916,145		$ 9,920,535	$ 652,606
Guaranteed Debt Payable in:					
Canadian Dollars	955,789	$ 955,789	$1.00	$ 955,789	$ —
U.S. Dollars	748,000	745,563	1.2341	923,107	—
Swiss Francs	80,000	54,280	0.9058	72,464	—
Total Guaranteed Debt		$ 1,755,632		$ 1,951,360	$ —
Total Direct & Guaranteed Debt		$10,671,777		$ 11,871,895	$ 652,606
Less: Sinking Funds		1,558,163		1,558,163	—
Net Direct & Guaranteed Debt		$ 9,113,614		$ 10,313,732	$ 652,606

Note 1: The above debt was issued for the following purposes:

	June 30, 1988	March 31, 1988
General Government Programs (Note 2)	$ 5,035,905	$ 5,290,250
The Manitoba Hydro-Electric Board	3,602,588	3,714,644
Other	1,331,869	1,308,838
Total	$ 9,970,362	$ 10,313,732

Note 2: Includes $399 million of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province. Consolidation with the Provincial accounts would require Manitoba Properties Inc. debt to be reclassified as Direct Province of Manitoba debt.

Province of Manitoba
Net Direct and Guaranteed Debt: By Purpose



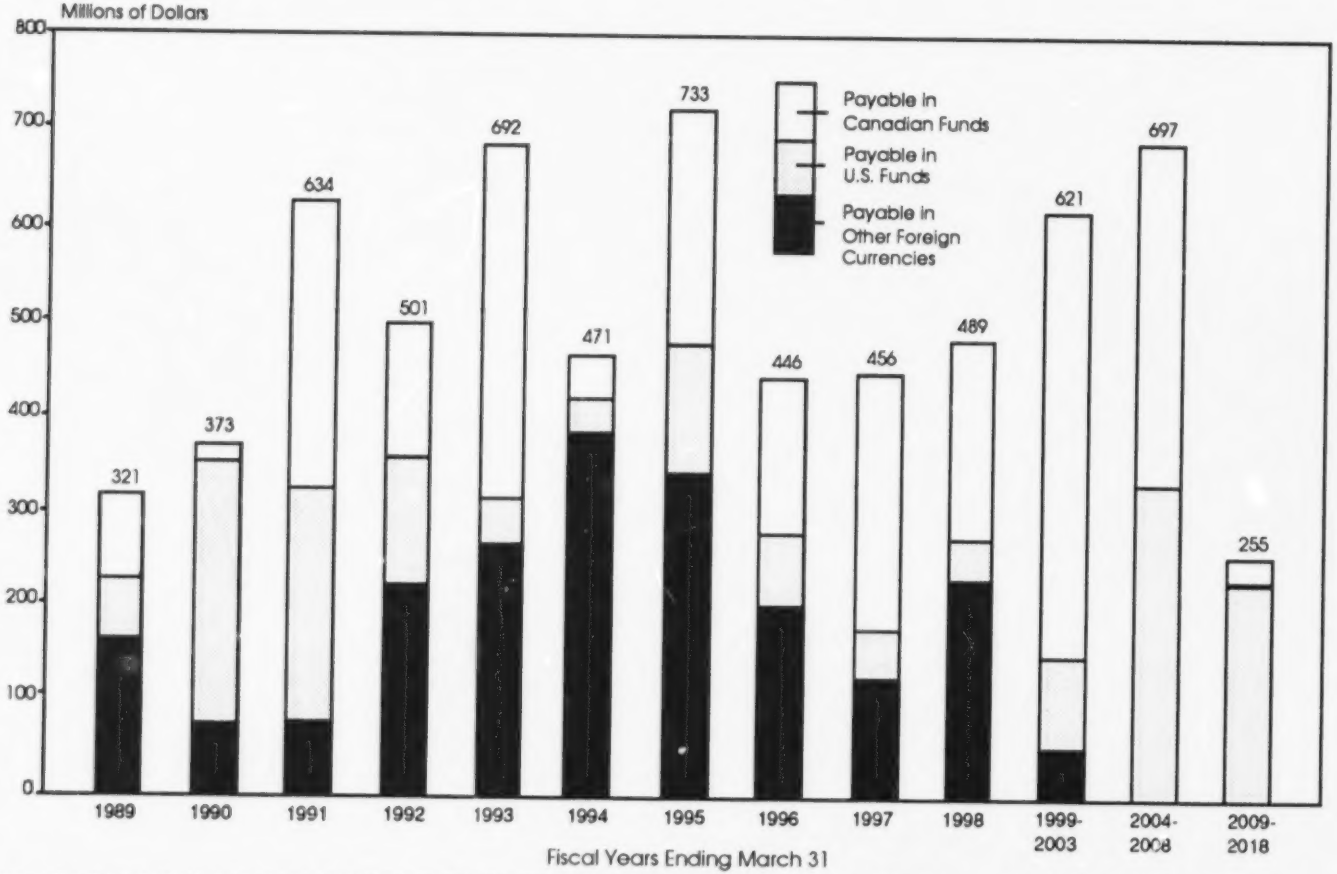
Note 1: The above chart indicates the Total Net Direct and Guaranteed Debt of the Province of Manitoba (after deducting accumulated Sinking Funds) using foreign exchange rates in existence on the dates reflected above.

Note 2: Includes as General Purpose Debt, $278 million in 1985 and $399 million in 1986, 1987 and 1988 of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province.

Province of Manitoba Direct and Guaranteed Debt

Net Refunding Requirements by Fiscal Year: By Currency of Payment

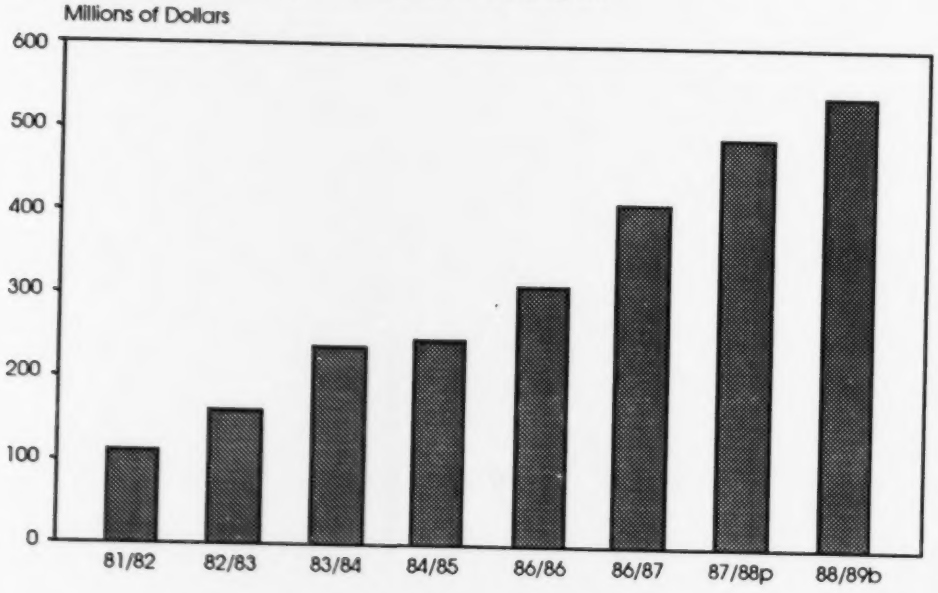
As at June 30, 1988



Note 1: The above chart indicates the amount which the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt outstanding at June 30, 1988 (based on foreign exchange rates at that date), after application of accumulated sinking funds.

Note 2: The Province of Manitoba has five retractable debenture issues and one extendable debenture issue outstanding at June 30, 1988. The maturity date of these issues has been assumed to be the maturity date occurring if the holder of the security does not elect to utilize his extendable or retractable option.

Public Debt Costs, 1981/82 to 1988/89



Public Debt Costs, 1981/82 to 1988/89

Year	Public Debt (Statutory)	Manitoba Properties Inc.	Total
		($ millions)	
1981/82	114.0	—	114.0
1982/83	161.8	—	161.8
1983/84	239.7	—	239.7
1984/85	224.5	23.5	248.0
1985/86	272.8	39.9	312.7
1986/87	351.5	59.0	410.5
1987/88p	430.9	59.7	490.6
1988/89b	483.3	61.8	545.1

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TAXATION AND RELATED PROGRAM ADJUSTMENTS

Budget Paper C / TAXATION AND RELATED PROGRAM ADJUSTMENTS

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I. TAXATION ADJUSTMENTS

■ Payroll Tax

(1988/89 Revenue Impact: - $3.9 million)

Employers with annual payrolls up to and including $300,000 (up from $100,000) will be exempt from the Levy for Health and Post-Secondary Education, effective January 1, 1989. For employers with payrolls between $300,000 and $600,000, the tax will be phased in. The effects of the new exemption level on payroll taxes paid by employers are illustrated below:

Effect of Expanded Payroll Tax Exemption

	Tax Payable		
Payroll	Previous Provisions	New Provisions	Savings
$ 300,000	$ 6,750	$ 0	$ 6,750
400,000	9,000	4,500	4,500
500,000	11,250	9,000	2,250
600,000	13,500	13,500	0

Currently, of the 43,000 Manitoba employers on the payroll tax rolls, only 8,000 pay the tax. The increased exemption will reduce the number of employers paying the tax by 46%, to 4,300. Of those employers, 1,400 will be paying the tax at a reduced rate. Some 2,900 employers, or 7% of all Manitoba employers, will continue to pay the full 2.25% rate.

Trucking firms will be granted an additional exemption related to that portion of payroll attributable to out-of-province activities.

The full-year revenue reduction associated with these changes is $23.3 million.

Inquiries relating to the payroll tax should be directed to:

Health and Post-Secondary Education Tax Branch
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3761

■ Mining Taxes

(1988/89 Revenue Impact: +$21.0 million)

The general mining tax rate will be increased from 18% to 20%, the same rate as in Ontario. While processing allowances will continue at an effective rate of 10% on direct processing assets, the minimum processing allowance will be eliminated. Legislation confirming the elimination of the New Investment Credit will also be introduced.

In response to industry concerns, the number of "open years" for mining tax reassessments will be limited to six years. In addition, expenses incurred in developing alternate uses for products mined in Manitoba will be allowed as a deductible expense from income for mining tax purposes.

These measures will apply to taxation years commencing on and after January 1, 1988, and to subsequent years.

Inquiries relating to mining taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3288

■ Fuel Taxes

Leaded Gasoline Surcharge

(1988/89 Revenue Impact: +$1.0 million)

The special surcharge on leaded gasoline will be increased 0.9¢ per litre to 1.8¢ per litre, effective September 1, 1988.

Manitoba's general gasoline tax rate will remain at 8.0¢ per litre. All marked fuels used by farmers will continue to be exempt from provincial fuel taxes. It is anticipated that the tax increase will equalize the retail price of leaded and unleaded gasoline at the pumps, and encourage motorists whose cars are designed to burn unleaded gasoline to do so.

Aviation Fuel

(1988/89 Revenue Impact: +$1.0 million)

The tax on aviation fuel will be increased 1.0¢ per litre to 5.8¢ per litre, effective September 1, 1988.

Inquiries regarding fuel taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3288

■ Tobacco Tax

(1988/89 Revenue Impact: +$6.4 million)

The tobacco tax rate will be increased 0.9¢ , from 4.6¢ per cigarette to 5.5¢ per cigarette, effective September 12, 1988. Comparable increases will apply to fine-cut tobacco and other tobacco products.

Inquiries regarding tobacco taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3297

■ Manitoba New Small Business Tax Reduction

To encourage the creation of new businesses and jobs, new small business corporations will be given income tax relief for a period of five years.

The program will apply to the first five taxation years of corporations incorporated under The Corporations Act, The Co-operatives Act, or The Credit Unions and Caisses Populaires Act after August 8, 1988, and before January 1, 1991.

The tax relief will apply to new Canadian-controlled private corporations that are not associated with any other corporations now carrying on business in Canada. The relief will apply to that portion of the first $200,000 of eligible active business income allocated to the Province pursuant to Part IV of the federal Income Tax Regulations in each of the qualifying years.

The tax reduction is intended for bona fide new enterprises. The following corporations will not be eligible for the tax relief:

- the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor;
- an existing individual proprietorship;
- a business whose principal purpose is to provide managerial, administrative, financial or similar services to a related entity; or
- a corporation carrying on a personal service business.

For the first taxation year, eligible small businesses will be given a deduction from Manitoba corporate income taxes otherwise payable equal to the 10% small business corporate tax rate. In each of the next four taxation years, the tax deduction will be reduced by two percentage points. By the sixth year, the full small business corporate income tax rate will apply.

New Small Business Tax Reduction

New Corporation's Taxation Year	Tax Reduction*	Effective Tax Rate
First	10%	0%
Second	8	2
Third	6	4
Fourth	4	6
Fifth	2	8
Sixth	0	10

* Applies to the income allocated to Manitoba on which the Small Business Deduction is allowed

After the program matures, the annual revenue reduction is expected to be approximately $1 million.

This income tax change will be administered by the Manitoba Department of Finance and by Revenue Canada. Inquiries may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203 - 333 Broadway
Winnipeg, Manitoba
R3C 0S9
Telephone: (204) 945-3757

Other Measures

The Land Transfer Tax will be amended in three important areas:

- Section 34 of The Revenue Act (1964), which applies the Land Transfer Tax to the sale of shares of corporations, will be abolished.
- Transfers of land to a parent corporation on the dissolution or winding down of a corporation will be exempt.
- Acquisitions of property by registered charities will be exempt.

Water Rights Fees as applied to local governments and non-domestic users will be eliminated.

II. FEDERAL TAX REFORM AND MANITOBA ADJUSTMENTS

On June 30, 1988, the federal government introduced the legislation required to implement National Tax Reform. To ensure that the full benefits of the reform are passed on to Manitobans, the Budget confirms the adjustments to the **Manitoba Surtax**, the **Manitoba Tax Reduction**, and the **Manitoba Cost of Living Tax Credit** initially proposed in the defeated Budget of February 26, 1988.

In all cases, the adjustments are required because the federal government has replaced personal exemptions with personal credits. The Manitoba programs in question were all based, in part, on personal exemptions.

The **Manitoba Surtax** was previously 2% of Net Income in excess of threshold Net Income levels, calculated on the basis of personal exemptions. The new thresholds are determined by adding fixed credits applicable to a taxpayer's circumstances. The following table shows the Net Income levels below which no Surtax will be applicable:

Manitoba Surtax

	Previous Thresholds	1988 Thresholds
Single taxfiler	$ 30,000	$ 30,000
Single with two children	36,250	36,250
Married with dependent spouse and two children	37,425	37,500
Single senior citizen	32,400	32,500

The **Manitoba Tax Reduction** is changed from 5% of personal exemptions minus 1% of Net Income, to the sum of the following fixed amounts applicable to the taxpayer's circumstances, minus 2% of Net Income.

Manitoba Tax Reduction

	5% of 1987 Personal Exemptions	1988 Credits
Single	$ 211	$ 430
Married or Equivalent	185	370
Age and/or Disability*	132	270
Dependent under 18	28	50
Disabled Dependent over 18	73	150

* 1987 level is based on the Age Exemption

The **Cost of Living Tax Credit** is changed from 4% of personal exemptions minus 1% of Family Net Income, to the sum of the following fixed credits applicable to the taxpayer's circumstances minus 1% of Family Net Income.

Cost of Living Tax Credit

	4% of 1987 Personal Exemptions	1988 Credits
Single	$ 169	$ 190
Married or Equivalent	148	190
Age and/or Disability*	106	110
Dependent under 18	22	25
Disabled Dependent over 18	58	60

* 1987 level is based on the Age Exemption

The combined effect of the federal changes and Manitoba's adjustments is to reduce the overall tax load facing Manitobans by $91 million in federal income tax, and $49 million in basic provincial income tax. Manitoba's personal income tax revenues after credits for the 1988 tax year are expected to be about $52 million lower than if no federal or provincial changes had taken place.

Manitoba Income Taxes and Tax Credit Programs: Effect of Federal Tax Reform and Manitoba's Adjustments
(1988 Taxation Year)

Federal Tax Reform:		
Basic Manitoba Tax	$ 49	million tax reduction
Net Income Tax before Reduction	13	million tax increase
Property Tax Credit	1	million benefit reduction
Subtotal	**$ 35**	**million saving to taxpayers**
Manitoba Adjustments:		
Manitoba Tax Reduction	$ 12	million benefit increase
Cost of Living Tax Credit	7	million benefit increase
Manitoba Surtax	2	million tax increase
Subtotal	**$ 17**	**million saving to taxpayers**
Manitoba Income Taxes after Credits and Reductions	**$ 52**	**million saving to taxpayers**

The following charts illustrate the calculation of the Manitoba Income Tax and the Manitoba Cost of Living Tax Credit. They are provided for illustrative purposes only and are intended as a guide to help the reader calculate income taxes and tax credit entitlements.

Calculation of Manitoba Income Tax

SECTION I

Basic Manitoba Income Tax: 54% of Basic Federal Tax	_____	(A)
Manitoba Net Income Tax: 2% of Net Income	_____	(B)
Manitoba Tax: add A and B	_____	(C)

SECTION II: Surtax

Complete only if your Net Income is greater than $30,000. If less than $30,000, enter 0 at D and proceed to E.

Net Income Tax (B above)		_____	(i)
Basic credit for all claimants	$600.00		
Credit for dependent spouse: claim $100	_____		
Equivalent to married credit: claim $100	_____		
Age credit for self (if born in 1923 or earlier): claim $50	_____		
Age credit for spouse†: claim $50	_____		
Disability credit††			
• Number of disability claims___X $50	_____		
Credit for disabled dependents born in 1969 or earlier			
• Number of dependents ___X $40	_____		
Credit for dependents born in 1970 or later			
• Number of dependents ___X $25	_____		
Total Credits	_____	_____	(ii)
Manitoba Surtax: (i minus ii; if negative, enter 0)		_____	(D)
Total Manitoba Tax: add C and D			(E)

SECTION III: Manitoba Tax Reduction

Basic credit for all claimants	$430.00		
Credit for dependent spouse: claim $370	_____		
Equivalent to married credit: claim $370	_____		
Age credit for self (if born in 1923 or earlier): claim $270	_____		
Age credit for spouse†: claim $270	_____		
Disability credit††			
• Number of disability claims ___ X $270	_____		
Credit for disabled dependents born in 1969 or earlier			
• Number of dependents___ X $150	_____		
Credit for dependents born in 1970 or later			
• Number of dependents___ X $50	_____		
Total Credits	_____	_____	(iii)
Subtract: 2% of Net Income (B above)		_____	(iv)
Manitoba Tax Reduction: (iii minus iv; if negative, enter 0)		_____	(F)
Manitoba Tax Payable: (E minus F; if negative, enter 0)			_____

Calculation of Manitoba Cost of Living Tax Credit

Calculation of Family Net Income

If you are single or your spouse has no Net Income, enter 0 at B below.

My Net Income	_____	(A)
My spouse's Net Income (if negative, enter 0)	_____	(B)
Family Net Income: add A and B	_____	(C)

Cost of Living Tax Credit

Basic credit for all claimants			$190	(i)
Age credit (if born in 1923 or earlier): claim $110			_____	(ii)
Optional credit for married persons: If you were a married person at the end of 1988 and your spouse has agreed that *only you will claim the Manitoba Cost of Living Tax Credit*, claim the following amounts where applicable.				
• Basic credit for spouse: claim $190	_____	(a)		
• Age credit for spouse if born in 1923 or earlier: claim $110	_____	(b)		
• Disability credit for spouse: claim $110	_____	(c)		
Total: add a, b and c	_____		_____	(iii)
Equivalent to married credit: claim $190			_____	(iv)
Disability credit: If you or a dependent claimed by you is disabled				
• Number of disability claims _____ X $110			_____	(v)
Credit for disabled dependents born in 1969 or earlier				
• Number of dependents_____ X $60			_____	(vi)
Credits for dependents born in 1970 or later				
• Number of dependents _____ X $25			_____	(vii)
Total Credits (add items i to vii)			_____	_____ (D)
Subtract: 1% of Family Net Income (C above)				_____ (E)
Manitoba Cost of Living Tax Credit (if negative, enter zero)				_____

Notes for the Calculation of Manitoba Income Tax and the Manitoba Cost of Living Tax Credit

Credits for Dependents: Wherever the calculations refer to a claim for a dependent, the full value of the provincial credit may be claimed even if you make only a partial dependent claim on your Federal Income Tax Return. If you do not make a claim on the Federal Income Tax Return, you are not entitled to the corresponding provincial credit.

† **Age for spouse:** This credit may be claimed only if your spouse was born in 1923 or earlier and your spouse's age credit has been transferred to your Federal Income Tax Return.

†† **Disability:** This credit may be claimed only if you are claiming a disability credit on your Federal Income Tax Return or if a disability credit in respect of your spouse has been transferred to your return. The credit may be used for each such disability claim.